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Theory of Accounts

Frederick S. Tipson

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BY

FREDERICK S. TIPSON, C. P. A.,

Fellow of the American Association of Public Accountants

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Preface.

This volume contains all questions set in the Theory of Accounts paper at the New York State semi-annual examinations for Certified Public Accountants, from December, 1896 (the first examination held), to June, 1902, inclusive, with full answers and explanations. While these answers may be found in extended and various forms in textbooks by several writers on accountancy subjects, they are not *all* to be found, as far as I am aware, in any *one*. Now, while it is claimed that the answers herein set forth contain the main facts bearing on the subject, they do not contain them all. Nor is it, I deem, expedient that they should. For it is by no means contemplated that the information conveyed should be got up "by rote," but rather that it should stimulate inquiry, study, and research on the part of the reader who desires to master the technique of the subject.

It is the invariable custom of the author, in preparing students for C. P. A. examinations, to teach the theory of accounts in connection with examples in practical accounting, and in a great measure to lead them to deduce and formulate the theory for themselves; on the principle that art precedes science, and that a proposition should be first worked out, and the reasoning process—the "how" and the "why"—explained afterwards. To use this book intelligently then, a knowledge of bookkeeping is necessary.

With respect to nomenclature, the author will occasionally be found at variance with many distinguished writers. In most textbooks, items of revenue expenditure and income are referred to as losses and gains. It would seem more reasonable to limit their meaning to "contributory factors;" for loss or gain is only arrived at after transferring them to the profit and loss account, and determining by preponderance of balances, whether a loss or gain has been made. An article published by the author on the "Profit and Loss Account" some time since, has been inserted in the body of this work, to which attention is specially drawn. Again, the terms "fund" and "account" appear to be used very frequently indiscriminately. It would be desirable to speak of a "fund" when a debit balance is referred to; an "account" when the credit balance corresponding is meant.

The extent to which the author has availed himself of the works of Mr. George Lisle, C. A., Mr. Lawrence R. Dicksee, F. C. A., Mr. Francis Gottsberger, C. P. A., and others, will be apparent to those who are familiar with the productions of these writers.

FREDERICK S. TIPSON.

December 15, 1902.

December 1896.

I. State the essential principles of double entry bookkeeping and show wherein it differs from single entry bookkeeping.

The essential principles of double entry bookkeeping are, (1) The record of every transaction involving the transfer of money or its equivalent must appear on both the debit and credit side of the ledger, thus maintaining it in balance. (2) Provision must be made for the constant differentiation under properly classified accounts of capital and revenue income and expenditure. (3) As resulting therefrom, the profit or loss determined from the collection of the preponderance of the balance of the revenue accounts must be proved by the excess of the assets over the liabilities as exhibited in the balance sheet.

The fundamental difference between single and double entry bookkeeping is this: In single entry the income and expenditure accounts are not kept, and the profit or loss for any given period is determinable solely from a comparison of the assets with the liabilities—the excess of the one over the other showing the profit or loss; the proof of the accuracy of same, though the same result being arrived at through the profit and loss account being entirely wanting.

Of minor importance also is the fact that the mathematical accuracy of the posting is in single entry bookkeeping undemonstrable in trial balance form, as in double entry.

II. Describe the following and show wherein they differ: (*a*) trial balance, (*b*) balance sheet, (*c*) statement of affairs, (*d*) realization and liquidation account.

(*a*) The "trial balance" is an extract from the ledger of all the balances—debit and credit. If the posting has been correctly performed, the total of all the debit balances will exactly equal the total of the credit balances. (*b*) The balance sheet is an exhibit of all the assets and liabilities of a business at a particular moment of time in summarized form. (*c*) A statement of affairs is an exhibit of the assets and liabilities of an insolvent concern, showing on the one side in summarized form the nominal assets as taken from the Ledger extended into a second column stating the amount they are expected to realize; on the other, the liabilities extended into a second column stating the amounts which are expected to rank. Preferred claims are deducted from the assets, and the excess of the liabilities over the assets is the amount of the deficiency, or measure of insolvency. (*d*) A realization and liquidation account is designed to show in condensed form the result of the winding up of the affairs of a business. It is charged with the total amount of the assets and credited with the total amount of the liabilities, exclusive of capital. It is charged with the amount expended to liquidate the liabilities, together with any expenses attendant thereon, and credited with the total amount realized by the assets. If the debit side exceed the credit, the excess is a loss and should be credited to the account and charged against capital. In those very exceptional cases where the credit side exceeds the debit, the difference should be debited to the account and credited to capital. To sum up, while the "trial balance" contains the balances of all the accounts in the ledger, nominal and real, the "balance sheet" contains only the real and personal accounts in totals. The "statement of affairs" groups the assets and liabilities as shown in the balance sheet with estimates as to the actual amounts to be realized and liquidated; and the "realization and liquidation account" records the actual transactions with the resultant increase or decrease of capital.

III. In devising a system of accounts for a business, what are the main subjects for consideration, and in what order should they have attention?

In devising a system of accounts for any business two principal considerations must be constantly borne in mind: (1) The record of every transaction must be explicit and self explanatory; (2) every transaction must be properly classified, so that the total results for any period may be obtained with facility.

Inasmuch as the end of classification of sources of income and expenditure is to determine ultimately the amount of profit or loss in the sales of individual departments of a business, or of separate classes of goods, the revenue accounts should be so designed as to readily furnish such information. The introduction of columnar cash books, journals, and sales books would be important factors in this, as well as minimizing the mechanical labor of posting. Next should come the division of the accounts in the general, purchase, and sales ledgers; each of which should be made "self balancing." A proper system of internal check should be arranged for to ensure as far as possible the detection of unintentional or fraudulent errors. Finally, the handling of the cash should be such as to call for the deposit in the bank of every amount received, and the payment of every amount by check, except petty cash items.

IV. Describe the following and show wherein they differ: (*a*) revenue account, (*b*) trading account, (*c*) profit and loss account, (*d*) deficiency account.

(*a*) A revenue account is used by non-trading concerns to determine the amount of net income earned. It is charged (at the end of a fiscal period) with the debit balances of all the nominal accounts and credited with those with credit balances. The excess of the credit side over the debit side of the account indicates the amount of the net revenue. (*b*) A trading account is designed to show the gross profit on trading, *i. e.,* the total excess of the amount charged for goods sold over their purchase price, together with any expense attendant on their acquisition. It is charged with the amount of the inventory on hand at the commencement of a fiscal period, and with the cost of all goods purchased during the same. It is credited with all sales and with the inventory at the end of the period—the excess of the credit side over the debit is the amount of the gross profit. (*c*) The profit and loss account is the revenue account of a trading business, and is used to determine by preponderance of balance of the nominal accounts (all of which are periodically closed out into it) the amount of the net profit for the period under review. It is first credited with the amount of gross profit, as shown by the merchandise or trading account, and charged and credited with the debit and credit balances respectively of the nominal accounts. The excess of the credit side over the debit is the amount of the net profit. (*d*) A deficiency account is, or should be, the regular accompaniment of a statement of affairs. It is charged with the deficiency shown by the statement of affairs, and with the amount of the capital account. It is credited with the shrinkages as exhibited in the difference between the nominal assets and the amounts they are expected to realize; with the expenses of the business, and with the amount withdrawn from the business by members of the firm. The account should then balance exactly. It is designed to show in condensed form what has become of the capital invested and how the deficiency was caused.

V. State the purposes for which series of perpendicular columns are employed in books of original entry and how these purposes may be accomplished relative to the following conditions: (*a*) several ledgers comprehended in one system of accounts, (*b*) several departments comprehended in one business, (*c*) several accounts comprehended in income and expenditure.

The general purpose of the columnar system in books of original entry is first to facilitate classification and analysis, and second to minimize the amount of posting.

(*a*) Where several ledgers are comprehended in one system of accounts, by means of the columnar system, the total amount charged and credited in each ledger can be seen at a glance, and by these totals an adjustment account for each ledger can be kept, rendering each self-balancing.

(*b*) Where several departments are comprehended in one business, the columnar system admits of the analysis of the income, expenditure, and profit or loss attending the conduct of each department separately.

(*c*) Where several accounts are comprehended in income and expenditure, the columnar system readily adapts itself to the most minute classification, affording explicit information on points of detail while curtailing the labor of posting.

VI. Describe the following and show wherein they differ: (*a*) statement of income and expenditure, (*b*) statement of receipts and payments.

(*a*) A statement of income and expenditure is another designation for a revenue account. It is charged with all expenses for the period under review, whether actually paid or not, and credited with all items of income earned whether received or not—the excess of the credit side over the debit indicating the net income. From this, and from the answer to question No. 4, it will be seen that three different terms are applied to virtually the same account—the results being net revenue, net profit and net income.

(*b*) A statement of receipts and payments is a cash statement in summarized form showing the cash on hand at the beginning of a fiscal period, and the total receipts and payments under classified headings during the period; the excess of receipts over expenditures, showing the balance of cash on hand at the end of the period.

VII. Describe a method of keeping accounts so that the aggregate sums due from customers and due to creditors can be known without preparing a schedule of the accounts of such customers and creditors, and so that an independent balance of the ledger, containing only the real, nominal, special and controlling accounts, exclusive of the individual accounts of customers and of trade creditors may be taken.

Where separate ledgers are kept for customers and creditors, an independent balance of the general ledger can be taken off containing the total amount due by customers and to creditors by constructing controlling accounts. Supposing the general ledger to be correctly posted if two accounts be opened, one called customers' controlling account, and the other creditors' controlling account; if the former be charged with the total amount due by customers and the latter credited with the amount due to creditors the general ledger would balance by itself.

Taking the customers' controlling account; if at the end of the month this be credited with the total amount of cash received from customers and discount allowed as shown by the totals of the cash book and with total amount of merchandise returned, if it be also charged with the total amount of merchandise sold as shown by the sales book, the excess of the debit side over the credit would show the aggregate amount due by customers. In other words, if the balances of the customers' ledger accounts were taken off, the total would exactly correspond with the total amount of the controlling account balance in the general ledger. The same principle applied to the creditors' controlling account would show a balance indicating the aggregate amount due to creditors. Thus a complete trial balance could be taken from the general ledger and the amounts due by customers and to creditors shewn without the necessity of waiting for detailed balances from the several customers' and creditors' ledgers. The importance of this, where the personal ledgers contain several thousand accounts, can scarcely be over-estimated.

VIII. Define and differentiate: (*a*) capital and revenue, (*b*) capital receipts and revenue receipts, (*c*) capital expenditure and revenue expenditure.

(*a*) Capital in its broadest sense is the excess of the assets over the liabilities of a business. It is often defined as the amount invested in a business. But it must be borne in mind that it is a fluctuating quantity, increasing or decreasing from day to day according as gains or losses are made. Revenue is (or should be) the resultant of the judicious employment of capital. At the end of every fiscal period revenue by transfer becomes capital accretion.

(*b*) Capital receipts are the amounts received for employment in a business with the object of earning a revenue. They constitute in the case of a corporation the assets contributed as value for capital stock. Revenue receipts are all the other sources of income of a business.

(*c*) Capital expenditure is simply the replacement of one species of assets by another.

Revenue expenditure is what is spent to earn a revenue. The excess of revenue receipts over revenue expenditure constitutes the net revenue, income, or profit of a business. The distinction between capital and revenue expenditure may again be briefly stated thus: Capital expenditure appears upon the balance sheet, while revenue expenditure is closed out into the profit and loss account.

IX. How may the accounts in a trial balance be best arranged to facilitate the preparation of a business and financial statement?

(*a*) Real Accounts; (*b*) Revenue or Nominal Accounts; (*c*) Personal Accounts: (1) Customers, (2) Creditors.

X. Define and differentiate: (*a*) fixed assets and cash assets, (*b*) fixed liability and floating indebtedness, (*c*) fixed charges and operating expenses.

(*a*) Fixed assets are those whose retention is essential to the carrying on of a business—*e. g.*, plant and machinery, furniture and fixtures, &c. Cash assets are those which consist of cash or can be readily converted thereinto. *e. g.*, Bills Receivable, Accounts Receivable, &c. They constitute the real working capital of a business.

(*b*) Fixed liabilities are those which are constant and do not ordinarily fluctuate, *e. g.*, capital stock, bonds, &c.

Floating indebtedness implies all other liabilities, such as Bills Payable, Accounts Payable, &c.

(*c*) Fixed charges are those which recur periodically as a first-charge against income, viz., interest on bonds, etc.

Operating expenses are those incurred in earning a revenue.

XI. Describe the following kinds of accounts: (*a*) personal, (*b*) impersonal, (*c*) real, (*d*) nominal, (*e*) current, (*f*) summary.

(*a*) Personal—with persons.

(*b*) Impersonal—all others.

(*c*) Real—those representing value.

(*d*) Nominal—those regarding revenue income and expenditure.

(*e*) Current—literally running—one containing charges and credits usually rendered for specially agreed on periods.

(*f*) Summary—the various items of expenditure and income for a fiscal period expressed in totals.

XII. Describe the process and state some of the purposes of analyzing a ledger.

Where books of original entry have been lost or destroyed and fraud is suspected the somewhat tedious procedure of analyzing the ledger is adopted. The method pursued is as follows: A sheet of paper is ruled with as many columns for debits and credits as there are items in the books of original entry. Two extra columns are provided for the debit and credit balances of all the accounts at the commencement of the period from which the analysis is to start. Each charge and credit in every account is entered under its proper column and the balance (debit or credit) is shown in columns provided for same. At the end of the period, when the totals of the columns in the analysis sheet are completed they should agree with the totals of the books of original entry as shown in the nominal accounts in the ledger—or if procurable, with the totals shown in the books of original entry themselves.

XIII. Describe the nature of the following accounts: (*a*) sinking fund, (*b*) reserve fund, (*c*) redemption fund, (*d*) depreciation fund, (*e*) contingent fund, (*f*) investment fund.

(*a*) A sinking fund is formed by setting aside periodically and investing such a sum as will in a given time amount to the total of a stated indebtedness which it is desired to discharge. It would be well if more discrimination were shown in accountancy nomenclature—so as to make a clear distinction between a "fund" and an "account"; the generic difference between them being that the former should always appear as a debit balance: the latter as a credit. A "fund" should always rank as a cash asset; an "account" with a credit balance, while represented by some portion of the assets in excess of all other liabilities, may not always be thus available.

(*b*) A reserve fund is formed by a charge to revenue periodically of such an amount as may be deemed necessary to hold in reserve for some specific purpose.

(*c*) A Redemption fund is treated in the same way as a sinking fund and practically means the same thing.

(*d*) A depreciation fund is formed by a charge to revenue and periodically investing a certain percentage of the book value of plant, machinery, etc., to replace same when worn out.

(*e*) A contingent fund is formed in the same way, but is not reserved for any specific purpose.

(*f*) An investment fund is that portion of the assets of a concern which is invested outside the business.

XIV. Define the following: (*a*) *stock,* (*b*) *capital,* (*c*) *surplus,* (*d*) *deficiency,* (*e*) *capital stock,* (*f*) *preferred stock,* (*g*) *common stock,* (*h*) *share capital,* (*i*) *loan capital*

(*a*) Stock is the generic term applied to all forms of share capital.

(*b*) Capital in an ordinary business is the excess of assets over liabilities. In a corporation it is the amount of its share capital.

(*c*) Surplus, as applied to corporations, is the excess of assets over liabilities including capital stock; it is really undistributed profit.

(*d*) Deficiency occurs when the capital is impaired, *i. e.* when the assets do not equal the liabilities, including capital stock as a liability.

(*e*) Capital stock is the term applied to the share capital of a corporation authorized—as stated in its articles of incorporation. It is represented by share certificates of specified par value.

(*f*) Preferred stock entitles the holders to a fixed rate of dividend before any be paid to common stock holders. It is divided into two classes: cumulative and non-cumulative. In the former case if a dividend be not earned in one fiscal period it becomes a liability on the next; in the latter, if the dividend be not earned no liability on such item is incurred.

(*g*) Common Stock is the ordinarv share capital of a corporation entitling the holder to such a share in the profits in the form of dividends as may be declared by the directors after dividends on preferred stock have been paid. It might be as well to add here that in the event of the dissolution of a corporation, preferred stock holders have ordinarily no prior right over common stock holders in the distribution of surplus assets.

(*h*) Share capital is the term applied to all classes of capital stock of a corporation evidenced by share certificates.

(*i*) Loan capital is money invested in a business, or borrowed temporarily to be paid at some specified date.

XV. Describe the nature of the following accounts: (*a*) merchandise, (*b*) construction, (*c*) consignment, (*d*) joint, (*e*) subscription, (*f*) expense, (*g*) maintenance, (*h*) venture, (*i*) suspense, (*j*) dividend.

(*a*) The Merchandise Account is, as ordinarily kept, nondescript; being when active partly real and partly nominal; but when closed it becomes a real account, the balance representing inventory. It is designed to show the gross profit on trading. It is debited with the stock on hand at the commencement of a fiscal period, with all purchases, and items returned by customers. It is credited with sales, with returns to creditors, and with inventory at close of said period. The excess of the credit side over the debit shows the gross profit which is carried to profit and loss account.

(*b*) The Construction Account is kept to show the cost of constructing buildings, plant, railroad beds, &c. It is charged with all expenses connected with such work.

(*c*) A Consignment Account is simply a trading account kept to show the profit or loss on goods consigned to another party for sale. It is charged with goods consigned, with consignee's expenses, commission, etc., and credited with sales. If a profit is shown, it is closed out into the profit and loss account.

(*d*) A Joint Account is a trading account of two persons —partners in a special transaction. The profit or loss shown is credited pro rata to the capital or personal accounts of those jointly interested.

(*e*) Subscription Account is charged with that portion of the capital stock of a corporation which is offered for sale. It is credited with subscriptions as received.

(*f*) Expense Account is a generic term applied to those items of revenue expenditure whose classification is not specifically arranged for.

(*g*) Maintenance is the term applied to an account which is charged with those expenditures necessary to keep in working order, *i. e.*, to *maintain* plant, fixtures, buildings, &c.

(*h*) A Venture Account is a trading account, containing the particulars of some transaction outside the regular business of a firm. It is charged with the cost of purchase, and expense, and credited with sales. It is a combination of a merchandise and profit and loss account.

(*i*) A Suspense Account is designed to contain all items whose ultimate collection is doubtful. When an account is found uncollectable, it should, at the end of a fiscal period, be credited to Suspense Account and charged to profit and loss.

(*j*) Dividend Accounts are numbered consecutively. When a dividend is declared, it should be charged to Surplus Account and credited to Dividend Account. When checks are mailed to stockholders, they should be charged to Dividend Account through the cash book—thus closing the account.

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I. Describe the principal books of account of some concern with which you are familiar, and show the relation and connection of these books.

For an ordinary wholesale trading establishment the following books would be required. Their inter-relation and connection are shown *seriatim:*

(*a*) Stock book to contain itemized details of merchandise purchased, with cost of same, date of purchase and date of sale.

(*b*) Invoice book, in which to paste all bills of goods purchased. Totals should be extended and added monthly. The total purchases should be charged to merchandise account and the items credited to the firms from whom the goods were purchased. By some firms a purchase journal is used instead. By means of this a careful analysis of goods purchased can be made in separate columns, and the totals charged to the several departments of a business.

(*c*) Day book or sales book, in which should be entered, or copied, particulars of merchandise sold previous to charging same to debtors in ledger and crediting total to merchandise account.

(*d*) Journal for all entries for which no separate book of original entry is kept.

(*e*) Cash book—in which to record all moneys received and paid previous to posting in ledger. Discounts allowed and received should also be entered here.

(*f*) Bills Receivable and Bills Payable Book—in which to record particulars of notes given and received previous to charging and crediting same to Bills Receivable and Bills Payable accounts in ledger.

(*g*) Pay Roll Book—to contain details of wages and salaries paid.

(*h*) Credit Book—divided so as to contain particulars of goods returned by debtors and to creditors previous to posting in ledger.

(*i*) Doubtful Accounts Ledger—to contain accounts whose ultimate realization is doubtful.

(*j*) Ledgers—Purchase, Sales, General and Private.

(*k*) Trial Balance book—in which to preserve a record of the monthly balances of all accounts in ledger.

II. What various meanings may an entry in a ledger account have, on (*a*) the debit side, (*b*) the credit side?

(*a*) On the debit side a ledger entry may mean (1) a charge for merchandise sold to a debtor or returned to a creditor; (2) cash paid to a creditor, or discount charged; (3) a note payable charged to a creditor; (4) total cash received during the month; total merchandise purchased or returned by debtors during same period; total discounts allowed to debtors, or total expenditure under specific heads—either capital or revenue; (5) total amount of notes receivable received from customers in settlement of their accounts during the month.

(*b* On the credit side a ledger entry may mean:

(1) A bill of goods purchased from a creditor, or total sales for a month to debtors, or total amount of merchandise returned to creditors; (2) cash paid by a debtor or discount credited to him; (3) a note receivable credited to a debtor; (4) total cash expended during the month; total

discount allowed by creditors; (5) total amount of bills payable given to creditors during the month; (6) total capital; (7) surplus; (8) revenue; (9) other liabilities under specific headings.

III. Show the advantages and the disadvantages of the column system for books of original entry.

The principal advantages are: (1) the ease with which thoroughness of classification is secured; (2) the enormous saving of labor in posting; and (3) the consequent lessening of the probability of errors in posting resulting therefrom. These advantages outweigh the disadvantages of the system, which are the ever present possibility and likelihood of entries being made in wrong columns, and the consequent enlarged opportunity for fraudulent entries on the part of a dishonest employee.

IV. Describe the process of closing the ledger of a mercantile firm.

The trial balance having been tested and found correct, the inventory of stock on hand is credited to merchandise account, and the gross profit determined and carried to the credit of profit and loss account. The amount of the inventory is then brought down as a debit balance in merchandise account, thereby converting it into a real account. A proper percentage is charged off plant and machinery and furniture and fixtures to profit and loss account. All nominal accounts with debit balances are closed out by crediting them and charging profit and loss account; and all those with credit balances are closed by debiting them, and crediting profit and loss account. A reserve account should be created for bad debts and discounts, and if after charging them to the profit and loss account a credit balance is shown the said balance is the net profit for the period under review. This should be closed out at once by charging profit and loss and crediting the capital accounts of the principals of the firm in the proportion they are entitled to.

V. In what ways may bad or doubtful debts be disposed of at the close of a fiscal period?

Bad debts should be charged at once to Profit and Loss Account; but if doubtful, they should either be transferred to a Suspense Account, or into a "Doubtful Accounts" ledger specially ruled for that purpose. Of course no debt should be charged to Profit and Loss Account until it has been definitely ascertained that it is absolutely uncollectable; for once thus transferred its reappearance in any shape as an asset may be regarded as doubtful.

VI. What are the functions of the cash book? Describe the peculiarities of one or more cash books with which you are familiar.

The functions of the cash book are to record in detail and in gross all receipts and expenditures, and to show at any time the balance of cash on hand. The peculiarities of all cash books consist in the extent to which the column system is made use of.

By a little thought this may be so planned as to greatly curtail the labor of posting, to afford considerable detailed information, and to constitute an indespensable feature in the keeping of self-balancing ledgers.

VII. In what order should the several items in a balance sheet be placed? Give reasons for your answer.

The following is the proper order for items in a balance sheet:

Assets.	Liabilities.
1. Cash.	1. Notes payable.
2. Investments—securities.	2. Accounts payable.
3. Notes receivable.	3. Other liabilities.
4. Stock on hand.	4. Capital.
5. Accounts receivable.	
6. Furniture and fixtures.	
7. Plant and machinery.	

The reason for this arrangement is that the assets should always appear in the order or facility of their realization; and that liabilities should stand in the order in which they would ordinarily be liquidated.

VIII. Describe a bill book and show its relation to (*a*) the bills receivable account, (*b*) the bills payable account.

The bill book is generally divided into two parts: Bills Receivable and Bills Payable. It is ruled with columns showing date, name of maker, in whose favor drawn, due date, amounts and any remarks. A note received from a customer in settlement of account is entered in the Bills Receivable book and posted to the credit of the person from whom received at once. At the end of the month the total amount of notes received is debited in the ledger to Bills Receivable Account. On the other hand notes given to creditors in settlement of accounts are entered in the bill book and charged to creditors at once. Once a month the total amount of notes so paid out is credited in the ledger to Bills Payable Account. When the amount of a note is received or paid, it is credited or charged in the cash book to Bills Receivable or Bills Payable account, and the balance of either account in the ledger will always show the gross amount owed or owing on notes. For schedules, reference of course has to be made to the Bill Book.

IX. How should one proceed to detect an error in a trial balance?

First verify the previous trial balance; check all the footings in books of original entry; check all postings from same into ledger; check the taking off of ledger balances, and the footings of the trial balance book. If this work be done thoroughly the error will generally be detected. It is very important to make clear all blurred or doubtful figures, as it is often found that an item is added as one figure and posted as another. This may be termed the "good old-fashioned" method. It has this advantage: it never fails. The above work may often be curtailed; especially if self balancing ledgers be in use. The particular side on which the error lies can generally be very readily determined, thus cutting the work of checking in half. If the difference is exactly divisible by "9," a transposition of figures may be looked for; and if by "2" the error is probably in taking off and placing an amount on the wrong side of the trial balance. Numerous "short methods" have been invented from time to time; but experience—best of teachers—generally shows that there is no method so good as the "old-fashioned" one of "calling over."

X. State various ways of treating the bank balance in connection with cash on hand.

In most English cash books special columns are ruled for the bank account; one for deposits, the other for withdrawals. Thus the bank balance is shown at a glance.

This balance added to checks and cash undeposited will exactly equal the cash balance called for by the excess of receipts over expenditure as entered in the cash book. In this country, however, the usual plan is to keep the bank account on the stubs of the check book, the balance being ascertained by deducting the one side from the other.

XI. Describe the merchandise account as ordinarily kept. Show how it may be subdivided and suggest improvements.

The Merchandise Account as ordinarily kept is a nondescript kind of account, partly real and partly nominal when active; the balance of which represents nothing. When closed, however, it becomes a real account; the debit balance representing stock on hand at a particular date. It is usual to charge the account with stock on hand at the beginning of a fiscal period; with purchases during the period, and with merchandise returned by customers. Sales made and merchandise returned to creditors during the period are credited to the account, as is also the amount of stock on hand at the end of the fiscal year. If a credit balance is then disclosed it represents the gross profit for the period, which should be credited to Profit and Loss Account; but if a debit balance appear, it represents the gross loss for the period which should be charged to Profit and Loss Account.

The Merchandise Account should be subdivided as follows:

1. Merchandise Account—Purchases.
2. Merchandise Account—Sales.
3. Merchandise Account—Return sales.
4. Merchandise Account—Return purchases.
5. Merchandise Account—Stock.

Each balance would then represent something definite; and the comparative statistics derivable therefrom would be of utmost value, not only at the close of a fiscal period, but also at any time during said period.

XII. How may a set of books be changed from single entry to double entry?

A statement of assets and liabilities should be made up from the single entry books and from subsidiary records so as to arrive at the net capital.

All impersonal accounts in the single entry ledger should be ruled off. One journal entry "Sundries Dr. to Sundries" will then be sufficient to bring all assets and liabilities not appearing on the old ledger into account and consequently the books into balance.

Existing personal accounts need not be disturbed, care being taken not to open again accounts already appearing on the old ledger.

XIII. Describe various uses of the journal.

The journal is used (1) to contain the "opening" and "closing" entries of a set of books; (2) to contain those entries for ledger posting which do not appear in other books of original entry; (3) to record transfers, which should always be accompanied by careful explanatory notes.

XIV. What are the functions of a real estate account? What entries may it properly have on each side?

The functions of a Real Estate Account are to contain a record of purchase price and cost of improvements and profit on the debit side, while it is credited with depreciations and sale price and loss. It should be supplemented by a "Real Estate Income and Expenditure Account," which should be charged with all expenditures not enhancing values, and credited with income arising from the property.

XV. Describe the stock ledger (shares ledger) of a corporation and show how it is kept.

A corporation stock ledger (shares ledger) is used for keeping the accounts of stockholders in, with regard to their individual shares of stock in the corporation. The first account should be the capital stock account, which should be charged with the total amount of stock issued. Stockholders' individual accounts should be credited with their holdings and thus the ledger will be rendered "self-balancing." The ruling for an individual account is appended.

Dr. JOHN BROWN. **Cr.**

Date		Certificates	No. of Shares	Par Value	Date		Certificates	In-stall-ments	No. of Shares	Par Value
March	6	Renewed by No. 40	400		Feb'r	4	No. 10		500	
"	6	Transf'd to J. Davis	100							
					March	6	No. 40		400	

December 1897.

I. What are the main features of difference between a trial balance taken out at the end of a fiscal year before the books of a business are closed, and one taken out immediately after the books are closed?

A trial balance taken out at the end of a fiscal year *before* the books of a business are closed, contains the balances of *all* the accounts in the Ledger—nominal, real and personal. After the books are closed, the trial balance contains only the balance of real and personal accounts. It is really a "Balance Sheet" proper in extended form.

II. What is meant by (*a*) *capital,* (*b*) *working capital?* Why is capital always shown on a balance sheet as a liability?

(*a*) *Capital* means, (1) the excess of assets over liabilities of a firm. The term is also applied to (2) the assets corresponding to the liability of a corporation to its stockholders as evidenced by its capital stock.

(*b*) By *working capital,* is meant all assets available as cash for the carrying on of a business. Cash, accounts receivable, bills receivable, etc., would come under this head; but plant and machinery, good will, etc., would not.

Capital is shown on a balance sheet as a liability because a business is liable to the members of a firm or corporation for the amount standing to the credit of investment, or capital stock account.

III. Formulate journal entries to express fully *each* of the following transactions:

(*a*) A sale of goods for a note bearing interest, (*b*) the discounting of the above mentioned note at a bank, (*c*) the annulling of a personal account as uncollectable, (*d*) the adjusting of an interest account for interest earned but not yet collected.

Bills Receivable, Dr., to Sundries.

(amount of sale)	Merchandise account.
(amount interest on note)	Interest account.

Note received in payment of goods sold to A. B. this day, bearing interest at 6 per cent. dated January 10th, due April 10.

(*b*) Sundries, Dr., to Bills Receivable.

Cash account (amount received from bank for note).

Discount account (amount charged by bank for discount).

(*c*) Profit and Loss account, Dr.

To C. D.

Account returned this day pronounced "uncollectable," now charged off as per order of ( ).

(*d*) Accrued Interest Account, Dr.

To Interest Account.

Interest earned but not collected on——.

IV. Under what circumstances is a patent regarded as an asset? After a patent has been valued, should such value be considered as permanent? Give reasons for your answer.

A patent may be regarded as an asset when it is a virtual lease of a monopoly.

It should not be considered of permanent value because its existence is limited. This extermination of its value should be provided for by writing off to depreciation account annually such an amount as would make extinguishment of value coincident with the expiration of the patent.

V. In the opening of a ledger, what principle should be followed as to the order of arrangement of the accounts? Show the advantages of different plans.

The principle to be followed as to the order of arrangement of accounts in the opening of a ledger should obviously be that which most readily facilitates the making up of a balance sheet or financial statement from the trial balance when taken off. Real accounts with Dr. balances would naturally come first. Next the nominal accounts, and then personal ones. The same order should obtain with regard to accounts ordinarily showing credit balances. A better arrangement would be as follows:

1. Nominal accounts. 2. Real. 3. Accounts Receivable. 4. Accounts Payable.

The advantage of the latter method is that if the nominal accounts be kept on one sheet of the trial balance book, the other sheets will be the schedules of accounts receivable, payable, and real accounts.

VI. Describe a set of books for a commission merchant. Show the relation of each book to the other books of the set.

A commission merchant should have the ordinary ledger, journal and cash book, and, in addition, a separate stock book and sales book for every client for whom he sells goods. On receipt of goods to be sold on commission, he enters quantities in stock book and opens an account in ledger with consignor, charging it with any freight and expenses incurred in their receipt. All sales made are entered in the sales book of the consignor as made; charged to the party to whom sold, and the total of these sales credited periodically to the consignor's account on the ledger. A memorandum is made on stock book as each lot of stock is sold, which then constitutes a standing inventory of goods undisposed of. When settling, he charges the consignor's account with commission and expenses incurred in selling, and remits cash for the balance.

VII. State what is meant by a *cost sheet,* showing its advantages and how it is made up. Give a form of cost sheet for some manufacturing business with which you are familiar.

By *cost sheet* is meant a statement in detail of all items which enter into the cost of manufactured goods. Its advantages are as follows: The ability to determine quantity and cost of raw material, manufactured and in process of manufacture; cost of labor; proportion of fixed charges and incidental expenses to be added to manufacturing cost, forming a stable basis on which to base selling price to obtain a given percentage of profit.

COST SHEET FOR A CIGAR FACTORY.

MANUFACTURING COST, LABOR AND MATERIALS.

MONTH OF........................190....

RAW LEAF DEPARTMENT.

Division of Cost.	Amt.	No. of lbs. Raw Leaf Received.	Cost per 100 lbs.	Weight Delivered in Shipping Dept.	Loss in Weight.	Corresponding Month Last Year.			Previous Month of Present Year.		
						Basis—No. of lbs.	Cost per 100 lbs.	Loss in Weight.	Basis—No. of lbs.	Cost per 100 lbs.	Loss in Weight.
Labor.... Cartage.. Storage.. Insurance											
Totals.											

STRIPPING DEPARTMENT.

Division of Cost.	Amt.	No. of lbs. Received. from Raw Leaf Dept.	Cost per 100 lbs.	Weight Delivered to Rolling Dept.	Loss in Weight.	Previous Month Same Year.		Loss in Weight.	Corresponding Month Last Year.		Loss in Weight.
						Basis— No. of lbs.	Cost per 100 lbs.		Basis— No. of lbs.	Cost per 100 lbs.	
Labor....											
Supplies .											
Totals .											

ROLLING AND BUNCH MAKING.

Division of Cost.	Amt.	No. of lbs. Prepared Leaf from Stpg. Dept.	Cost per 100 lbs.	No. of Cigars Made Delivered to Pkg. Dept.	Previous Month Same Year.		Same Month Last Year.	
					Basis— No. of lbs.	Cost per 100 lbs.	Basis— No. of lbs.	Cost per 100 lbs.
Foremans Labor..								
Rollers Labor..								
Bunch Makers.								
Supplies .								
Totals..								

PACKING DEPARTMENT.

Division of Cost.	Amt.	No. of Cigars Received from Bunch Making.	Cost per 1000	Previous Month Same Year.		Same Month Last Year.	
				Basis— No. of Cigars Received.	Cost per 1000	Basis— No. of Cigars.	Cost per 1000
Mens Labor..							
Womens Labor..							
Cases at Cost...							
Wrappers							
Labels...							
Supplies .							
Totals .							

SUMMARY.

Raw Leaf Dept.
Stripping Dept.
Rolling and Bunch Mkg.
Packing Dept.

Total Cost, ______. No. of Cigars made and packed ______Cost per M.______

Cost per thousand present Month..............	Loss in weight present month...........
Cost per thousand last month.	Loss in weight last month.
Cost per thousand last year.	Loss in weight last year.
Decrease or Gain in cost of______per M.	Decrease or Gain in loss of______per cent.

Depreciation of Building
Depreciation of Plant.
______. Equal to______per M.

Revenue Stamps. ______ " " ______ " "

VIII. What is meant by the *good will of a business*? Under what circumstances does it become important to determine the value of the good will of a business?

By Good Will ordinarily is meant the capitalized value of the average net profits of a business for a certain period. If a business has earned for a period of say, ten years, an average profit of $10,000 per annum, the books show that after discharging all liabilities, the net capital of the proprietor is $50,000, it is very evident that should he desire to sell his business, he would be justified in asking more than $50,000 for it. Such sum as he asked for about $50,000, would be Good Will value. The purchase price for Good Will varies from three to ten years of the average amount of net profit earned.

It becomes important to determine the value of the Good Will of a business in case of (1) the sale of a business, or (2) of its being absorbed by a joint stock company. The substance of the theory is this: Good Will is the presumption that the old customers will resort to the old place.

IX. Mention *five* classes of ledgers and describe the peculiar features of each class.

1. Purchase Ledger, for goods purchased and credited.
2. Sales Ledger, for sales made and debited.
3. General Ledger, for impersonal and real accounts.
4. Private Ledger, for such accounts as it is considered desirable to keep accessible to principals only.
5. Stock Ledger, to contain record of shares sold, paid for, transferred, etc.

X. Describe the following, and state the distinguishing feature of each: (*a*) income account, (*b*) surplus account, (*c*) suspense account, (*d*) reserve fund.

(*a*) Income account contains the entire income and expenditure for the term under review, whether same has been collected, or remains outstanding at close of fiscal period, or whether same has been paid, or is still a liability.

(*b*) Surplus account is that account to which is transferred the balance of net profit for any fiscal period as disdisclosed by the Profit and Loss account. From the "surplus," dividends are declared, and when declared, total amount should be charged to surplus account and credited to dividend account. The system of leaving a surplus to the credit of profit and loss account is unscientific and illogical.

(*c*) Suspense account is charged with those items whose collection or realization is uncertain. It is customary to transfer doubtful accounts to this "suspense" and close them out into Profit and Loss account when it is definitely ascertained that they are uncollectable.

(*d*) Reserve Fund is a proportion of profit set aside for a particular purpose, and it must be borne in mind that it should only be used for the purpose designated. Thus it is very common to find "reserve for bad debts," "reserve for depreciation," etc. A "fund" should be represented by a debit balance, while the "account" appears as a credit balance.

XI. Define (*a*) *funded debt,* (*b*) *floating indebtedness,* (*c*) *fixed charges.* May interest on floating debt properly be considered a fixed charge?

(*a*) By funded debt is meant the amount of bonded indebtedness incurred to discharge general liabilities with. Such debt bears a fixed rate of interest and is redeemable generally at a stipulated date. Suppose a corporation has $100,000 of outstanding floating indebtedness. It may issue mortgage bonds for this amount and pay off its floating indebtedness with the proceeds. Liabilities thus discharged would become a portion or all of the corporation's funded debt.

(*b*) Floating indebtedness means the general liabilities which have to be discharged from time to time, as distinguished from capital stock, bonds, mortgages, etc.

(*c*) Fixed charges are those which occur periodically without variation in amount. Instances of these would be interest on bonds, mortgages, etc.

Interest on floating debt could scarcely be called a fixed charge, because it would vary in amount and would not have to be paid at certain definite intervals.

XII. State cases in which leases have a value that should appear in the accounts. How should provision be made in such cases for the falling out of such value at the expiration of the leases?

When a premium is paid for the acquisition of a lease, such sum might very properly appear as an asset on the balance sheet. Such cases would be, (1) where the business locality is of so valuable a character that the landlord can be reasonably certain of commanding tenants; (2) premises licensed.

Provision for the falling out of such value at the expiration of a certain period should be made by charging annually to revenue such a percentage of the total amount as would extinguish the account at the end of the period.

XIII. In case of discrepancy in a trial balance, how may the accountant ascertain which side is erroneous?

By testing either side. In the case of the debit side test, the total debit of last balance should be taken and to it should be added total of all debit entries during month. From this total should be subtracted all credit entries affecting debit side; the remainder should be total of debit side of new trial balance.

XIV. How may the gross profit or loss on merchandise be ascertained?

Charge merchandise account with inventory at commencement of period, with total purchases and returns from debtors. Credit it with total sales and total returns to creditors and also with inventory at close of period; the excess of credit side over debit side will then represent the gross profit.

XV. Describe the profit and loss account. Show how this account is made up and from what accounts it is made. What does the balance of the profit and loss account represent, and how should such balance be finally treated?

A Profit and Loss Account is an adjustment account for the determination of profit and loss for a given period. It is made up by charging it with nominal accounts with debit balances and crediting with nominal accounts with credit balances. If the credit side exceeds the debit side, the result is a profit; if the opposite, a loss. If a profit is disclosed, in case of a copartnership, it should be transferred to the capital account of the members of the firm, but if a corporation, the profit should be credited to surplus account. (The following article, written by the author, has appeared in several magazines, and may be found interesting):

THE PROFIT AND LOSS ACCOUNT.

In the paper on Theory of Accounts set at several recent C. P. A. examinations, one of the questions has been, "Describe the Functions of the Profit and Loss Account." The obviously proper answer would be, "An adjustment account opened at the close of a fiscal period as the recipient for the debit and credit balances of the nominal accounts, so as to enable one to ascertain by preponderance of balance whether a profit or loss has been made during said period." It is clear that the account must show either a profit or a loss; it cannot show *both*. And yet it is a matter of everyday occurrence for the auditor to find such an item as "Profit and Loss" as a liability in the *balance sheets* submitted to him. In two instances which came under the writer's notice recently, profit and loss figured in the *balance sheet* as an *asset!* It is contended that the appearance of the words profit and loss on either side of a balance sheet is unscientific and misleading. If a profit has been made (we are, of course, referring to corporations) after allowing for bad debts, depreciations, etc., the balance should be carried to surplus account, from which, and from which only, directors have authority to recommend the declaration of dividends. If a dividend be declared, the amount must be charged to surplus account and credited to dividend account, to which are charged the checks as paid to stockholders of record. If, on the other hand, a loss be made, it should be credited to profit and loss account and charged to surplus account (if there be one in existence); if not, it must be charged to deficit account.

It is strongly contended that the profit and loss account is—as designed originally—for the sole purpose of determining whether a profit or loss has been made; and that as soon as this purpose is accomplished, it should be closed at once, and remain closed until the next fiscal period terminates.

Unfortunately, the practice is very prevalent among bookkeepers and corporation officials of regarding the account as a kind of financial dust heap; so that any item whose disposal under intelligible classified heading is not readily ascertainable, is thrown into profit and loss. This is to be deprecated greatly and resisted by the conscientious auditor. If he points out, as it is part of his duty to point out, first, that the abuse of this account is often made a channel for the covering up of fraudulent entries; and, second, that the appearance of the words profit and loss on the balance sheets will generally mislead outsiders, it is possible that a much-needed reform may be brought about, resulting in improved systems within and in a clearer presentation of facts to the outsider; both results being greatly to be desired in the highest interest of commercial morality.

June 1898.

I. Describe fully *each* of the following accounts, showing what entries may be made on each side and what disposition should be made of the balance: (*a*) cash account, (*b*) interest account, (*c*) merchandise account, (*d*) suspense account, (*e*) real estate account.

(*a*) The cash account is charged with the balance of cash in bank and undeposited at the beginning of a fiscal period, and with all receipts to the end of said period. It is credited with all payments. The balance indicated by the excess of the total debits over credit represents the amount of cash on hand at the end of the period, which should appear in the Balance Sheet.

(*b*) The Interest Account is charged with interest paid on notes, mortgages, etc., and credited with interest received. If a debit balance appears at the end of a fiscal period, it is charged to Profit and Loss account, if a credit balance, it is credited to the same account.

(*c*) The Merchandise Account is charged with the inventory on hand at the commencement of a fiscal period, and with all purchases and returns during the period. It is credited with all sales, and with the inventory on hand at the end of said period. If the credit side is the greater, the balance indicates the gross profit, which should be charged to the Merchandise Account, and credited to Profit and Loss Account. If the debit side is the greater, the balance is the gross loss, which should be credited to Merchandise, and charged to Profit and Loss Account.

(*d*) Suspense Account is charged with all items whose ultimate realization in full is doubtful. Amounts so charged, if found uncollectable, should be credited, and charged to Profit and Loss Account. If a partial payment be made on account of any item so charged, and the balance be deemed uncollectable, the amount received on account should be credited to Suspense Account, and the balance be credited and charged to Profit and Loss Account. The balance of the suspense account should be added to the amount of accounts receivable appearing in the balance sheet, and adequate reserve be deducted for bad and doubtful debts.

(*c*) Real Estate Account should be charged with the cost of property and with any expenditure which enhances value. It should be credited with sales made (if any) and with a proper percentage of depreciation periodically. The balance would ordinarily represent the cost value of the property, which should appear in the balance sheet as an asset. In connection with this account, a Real Estate Income and Expenditure Account should be kept. This should be charged with any expenditure in the nature of repairs, and credited with the income arising from the property. The balance would show the net revenue or loss on the property periodically. As instances, the payment of an assessment for laying sewers or for asphalting the street would properly be chargeable to Real Estate Account as enhancing value. Repainting and plumbing repairs would be charged to the income and expenditure as being in the nature of maintenance.

II. Describe the following securities and show the essential features of each: (*a*) common stock, (*b*) preferred stock, (*c*) income bonds, (*d*) debenture bonds, (*e*) mortgage bonds.

(*a*) Common stock is a certificate of specified par value entitling the holder to vote at meetings of stockholders of a corporation, and to participate in dividends (if declared) after the preferred stockholders have been paid the dividend stipulated on their certificates and after all fixed charges have been paid. As far as equity in the property of a corporation is concerned, the interest of common stockholders is generally identical with that of the preferred stockholders.

(*b*) Preferred stock is a certificate of specified par value entitling holder to a fixed rate of dividend before any distribution of profits in the form of dividends is made amongst the common stockholders. It is divided into two classes: cumulative and non-cumulative. With regard to the cumulative stock, if sufficient profit is not available at the close of a fiscal period to pay the stipulated rate of dividend, the deficit unpaid becomes a liability of the corporation until paid. In the case of non-cumulative stock, if the full dividend is earned it is paid, but no deficit is carried forward as a liability; it is lost to the stockholder.

(*c*) Income bonds are those issued against the surplus income of a corporation as security, after fixed charges have been paid.

(*d*) Debenture bonds are a class of security superior to income bonds and inferior to mortgage bonds. The holders are preferential creditors to whom bonds are issued in much the same way as shares are issued to preferred stockholders, carrying a fixed rate of interest. They are generally divided into two classes: (1) those that are redeemable at the end of a certain specified time, or upon a specified notice, and (2) those that are issued as permanent liabilities.

(*e*) Mortgage bonds are securities issued covered by a mortgage constituting a lien upon certain classes of fixed assets—such as buildings, plant, real estate, &c. They always carry a stated rate of interest, which is a fixed charge upon income.

III. Describe the process of taking a trial balance. State the purposes of the balance and show its relations to the balance sheet.

A trial balance is taken by adding up the postings on the debit and credit side of every account in the ledger singly, and by placing the balance of each account on the debit or credit side of a trial balance sheet. If the postings are correct and the balances accurately taken from the ledger, the totals of both sides of the trial balance will agree. The purpose of the trial balance is to demonstrate the mathematical accuracy of the posting.

The relation of the trial balance to the balance sheet is basic; for when the nominal accounts are closed out into the profit and loss account, and the inventory brought into account, the trial balance is converted into a balance sheet in extended form.

IV. Give a rule averaging the maturity of the balance of an account containing items of various dates on each side.

First find the due date of each item and assume the earliest due date, as the day of settlement of all the items on both sides of the account. Multiply each item by the number of days intervening between the assumed date of settlement and due date of the item. Find the sum total of the products on each side of the account. Divide the difference between the sums of the debit and credit products by the balance of the account. The quotient will be the number of days intervening between the assumed date and true date of settlement, counting forward the number of days when the account balances are on the same side and counting backwards when on opposite sides.

V. State in the form of journal entries the following transactions: (*a*) a note of a customer returned with protest charges from the bank where it had been left for collection, (*b*) the setting aside for wear and tear of a portion of the value of machinery, (*c*) the adjustment of interest accrued but not yet payable on a mortgage, (*d*) accommodation paper indorsed by the firm when coupon bonds are received as security.

(*a*) John Brown, Dr., $51.25.

To Bills Receivable........... $50.00
To Expense Account......... 1.25

note returned by bank with protest charges.

(*b*) Profit and Loss account, Dr., $500.

To Plant and Machinery........ $500

being 5 per cent. depreciation written off $10,000 for wear and tear.

(*c*) Interest account, Dr., $250.00.

To accrued interest account..... $250

being accrued interest on mortgage at time of closing books, but not yet payable.

(*d*) Collateral security account, Dr., $10,000.00.

To Contingent liability account..$10,000.00

being $10,000.00 coupon bond C. M. & St. P. Ry. Co. received as collateral security for accommodation note indorsed by us, this day, in favor of A, B & C, $15,000.00 due September 14 ult., 1898.

VI. In case of bonds purchased at a premium or at a discount, to be held till maturity, state how the price should be disposed of on the books at purchase, at maturity and at any intervening time.

In the case of bonds purchased at a premium:

(*a*) When purchased, the par value should be charged to investment account, and the premium to bond premium account.

(*b*) At any intervening time the bond premium account would be credited with such a proportion of the interest received as would wipe out the account at the maturity of the bonds. On the balance sheet the balance of premium added to the investment would ordinarily represent the value of the investment.

(*c*) At maturity the premium would be wiped out, and the bond would be redeemed at par. The investment account would therefore be credited and cash debited with the par value of the bonds.

In the case of bonds purchased at a discount, the investment account would be charged with the cost of the bonds, and debited annually, and interest account credited with such an amount as would raise the cost to par value by the time the bonds were redeemable.

VII. Formulate, in an imaginary case, the journal entry or entries for the conversion of a partnership into a joint stock company with the same resources and liabilities.

Balance sheet of Messrs. Nogood, Allbad & Allthere.

Assets.		Liabilities.	
Cash	$10,465.00	Bills Payable	$17,483.32
Mdse	29,700.00	Accounts	15,482.30
Plant, etc.	20,000.00	Mr. Nogood, capital	25,000.00
Accounts Rec'ble.	22,800.62	Mr. Allbad, capital	15,000.00
		Mr. Allthere, capital	10,000.00
	$82,965.62		$82,965.62

The copartnership is dissolved, and a corporation is formed with a capitalization of $100,000.00 to take over the business as it stands—the whole of the stock to be divided amongst the partners in proportion to their investment.

Journal Entries.

Good Will, Dr., $50,000.00.

To Mr. Nogood...	$25,000.00
To Mr. Allbad...	15,000.00
To Mr. Allthere..	10,000.00

being excess value of stock paid them over amount to their credit as capital.

Sundries, Dr., to Capital Stock, $100,000.00.

Mr. Nogood......	$50,000.00
Mr. Allbad.......	30,000.00
Mr. Allthere	20,000.00

being transfer to them of Capital Stock for the full settlement of their individual Capital Accounts.

VIII. Describe a voucher record for the expenditures of a corporation.

The voucher record is designed to facilitate the analysis of expenditures by analysis columns; to minimize the labor of posting, and to obviate the necessity of keeping individual accounts with creditors in the ledger. After bills have been checked and passed for payment, they are attached to a voucher folder, on the back of which is entered the detailed analysis of the bill under headings with the same designations as those at the heads of the columns in the voucher record book. The folder with bills attached is then passed to the vouchers record clerk for entry in the proper columns of the record book. At the end of the month, the columns of the book are footed and charged to the various nominal accounts in the ledger, while the totals of all the bills, as shown in the "totals" column is credited to "Vouchers Payable" account in the ledger. Checks are made out and marked by number to correspond with the vouchers, and all items entered in the "Vouchers Payable" column in the cash book. The footing of this column at the end of the month is debited to the "Vouchers Payable" account in the ledger, the balance of which should show the amount of "accounts payable."

IX. What is meant by *good will?* What kind of property is good will? May the good will of a partnership be sold?

By good will is meant ordinarily the capitalized value of the average net earnings of a business for a term of years —usually varying from three to ten years.

It is based upon the probability that old customers will resort to the same place. Its existence is to be found in most corporation balance sheets under some "fancy" title or other. Its value depends on—

(*a*) the place;

(*b*) the name;

(*c*) the chance that no one connected with the old firm will step in to compete. The question of its value may arise:

(*a*) upon the dissolution of a firm;

(*b*) upon the sale of the business. Good will is personal property. The good will of a partnership may be sold just as well as any other species of property.

X. What names are given to accounts that represent the excess of assets over liabilities? Differentiate these names in their application to various kinds of business.

Capital, Surplus, Reserve, Undivided profits. Excess of assets over liabilities is capital in the case of an individual or partnership. In the case of monetary corporations, it is called "Surplus and reserve." By transportation companies, it is called "undivided profits," and sometimes, though very improperly, "Profit and Loss."

XI. What is the proper course of procedure in taking charge of the bookkeeping of a firm that has either no books of account or very imperfect ones?

The proper course would be, first, to take a careful inventory of merchandise, plant and machinery, furniture and fixtures and other assets, and if sufficient data are unobtainable to determine their approximate value, to have them properly appraised. Next, bills, letters and memoranda should be investigated so as to find out what are the other assets and liabilities, and arrive at the capital of the concern. Statements should be procured from creditors, and sent to debtors, and confirmation of their accuracy requested. The bank pass book should be written up to date and balanced, and the cash in hand counted. On the ascertained basis of affairs, a proper set of books should be opened. The personal assistance of the members of the firm would probably be indispensable in arriving at satisfactory conclusions.

XII. Describe fully a system by which occasional small sales made on credit to persons not regular customers may be recorded without opening a separate account with each purchaser.

A very simple method is to have the opening pages of the ledger alphabetically indexed, giving a few folios to each letter. Sales, as made, could be posted in alphabetical order, and the settlement of same would appear opposite. Another method would be to have a "Petty Sales

Ledger" alphabetically indexed, the balance of which might easily be shown in the General Ledger by means of a controlling account.

XIII. Describe the most complicated form of cash book with which you are acquainted, showing its functions, the sources from which its materials are derived and where its results are carried.

Cash books differ from one another principally in the extent to which the columnar system is made use of. As the use of this system is to lessen the labor of posting and to facilitate the analysis of receipts and expenditure, it might be reasonably assumed that complication of form is in inverse ratio to the number of columns used. This being so, the most complicated form of cash book might fairly be said to be that which contains one column for receipts, and one for expenditures, thus necessitating the posting of every individual cash transaction.

XIV. Describe fully the method of keeping a bills receivable account, and state the connection of the account with the bill book.

The Bills Receivable account in the ledger should be charged monthly with the total amount of notes received from customers, and be credited with cash paid in settlement of same, or with cash received for those discounted. When a note is received in payment of an account, it should be entered in the bill book and posted to the credit of the person from whom received *at once.* The double entry is completed by charging the total to the ledger account, as before stated. If this method be pursued, the necessity of journalizing is obviated.

While this system is the shortest and the one generally employed, the ledger account does not furnish a complete detailed schedule, necessitating constant reference to the bill book. This could be avoided by posting each item singly to bills receivable account, marking in also the due date.

XV. As the bookkeeper of a firm that had no articles of copartnership, what would be your duty on learning of the death of a partner?

The proper course for the bookkeeper to pursue under the circumstances would be to suggest the taking of an inventory, closing the book, adjusting the capital account, and making up a complete statement of affairs at the time of the decease of the partner. He should also recommend the opening of another set of books to contain details of the subsequent realization of assets, and liquidation of liabilities of the firm.

December 1898.

I. Define *debit, credit, debtor, creditor.* State the general law growing out of the relationship of debtor and creditor that governs double-entry bookkeeping. What is the result of a debit entry? of a credit entry?

Debit—he owes; Latin, debeo.

Credit—he believes or trusts; Latin, credo.

Debtor—one who owes something.

Creditor—one who trusts another; one to whom something is owing.

The general law growing out of the relationship of debtor and creditor maintained in double-entry bookkeeping is that if one person or account is charged, another person or account is credited with a like amount. By this means the equilibrium of the ledger is maintained. The result of a debit entry is to charge some person or account with a certain amount. It is the record of the creation of an asset either by purchase or transfer, or of an expense. The result of a credit entry is the creation of a liability, either by purchase or transfer, or of an item of profit.

II. Mention the different classes into which accounts are usually divided. Give the names of the principal accounts of each class. Which class or classes of accounts close into loss and gain account? Mention the principal accounts common to mercantile bookkeeping and state the purposes of each.

Accounts are divided into the following classes:

Personal. Impersonal

Nominal. Real.

Personal accounts are those kept with persons, debtors and creditors; impersonal accounts are all others.

The principal nominal accounts are: Discount, Interest, Commission, Expense, Salaries, Wages, etc.

The principal real accounts are: Cash, Merchandise (Inventory), Plant and Machinery, Buildings, etc.

The nominal accounts close out periodically into Profit and Loss Account

The principal accounts common to mercantile bookkeeping, and the purpose of each, are as follows:

(*a*) Merchandise or Trading Account—to determine the amount of gross profit earned.

(*b*) Cash Account—to record amount on hand at the beginning of a fiscal period, the monthly receipts and expenditures, and the balance left at the end of the period.

(*c*) Discount Account—to record the amounts allowed to debtors and received from creditors in settlement of accounts.

(*d*) Interest Account—to show the amount of interest received and paid in the course of a fiscal period.

(*e*) Expense Account (subdivided into as many classes as necessary)—to show the general expenses of a business.

(*f*) Salary Account—to contain the amounts paid out under this heading.

(*g*) Wages Account—to show the total amount paid for labor, etc.

(*h*) Plant and Machinery Account—to record cost of plant, and to show amount written off for depreciation.

(*i*) Furniture and Fixtures Account—showing cost of these items.

(*j*) Bills Receivable Account—to contain amount due by debtors on notes.

(*k*) Bills Payable Account—to show amount and particulars of notes given to creditors.

(*l*) Accounts Receivable and Payable—showing full particulars of amounts due by debtors and to creditors.

(*m*) Capital Account—to show amounts invested and withdrawn by principals, and also amount of capital accretion consequent on transfer to it of profit from time to time, as shown by the Profit and Loss Account.

III. Define *assets, liabilities.* What are *fixed assets, quick assets?* In making up a general statement of assets and liabilities, what groups of accounts constitute assets and what constitute liabilities? State how to treat, on closing the books, assets and liabilities accrued but not actually due (such as interest receivable and payable, taxes, insurance, commissions, salaries, rents).

Assets—things owned.

Liabilities—things owed.

Fixed Assets—those not available as working capital, *i.e.,* which cannot be converted into cash readily.

Quick Assets—another name for cash assets, *i.e.,* cash or what can be readily converted thereinto.

Personal and real accounts constitute assets; personal and capital accounts constitute liabilities.

For assets accrued but not yet due an account should be opened (take interest for example) under the heading of Accrued Interest Receivable, and the amount accrued should be charged through the Journal to this account, and credited to Profit and Loss Account. On the balance sheet the item would appear as "Interest Accrued" amongst the assets. For liabilities accrued but not yet due, Profit and Loss Account should be debited, and an "Accrued" account credited under proper descriptive title. The item would of course appear on the balance sheet amongst the liabilities.

IV. Describe the different methods of determining the loss or gain of a business. How is the loss or gain of a business determined from books kept by single entry? State the usual mode of procedure when the books are kept by double entry.

There are two methods of determining the loss or gain of a business:

(*a*) The resource and liability method, which consists in comparing the total assets with the total liabilities; the excess of the former over the latter constituting the net profit.

(*b*) The profit and loss method, which consists in comparing the total of the revenue accounts, with credit balances, with that of those with debit balances in the profit and loss account. The excess of the former over the latter is the amount of net profit. The accuracy of this is confirmed by the balance sheet, where the same result is shown in the increased excess of assets over liabilities.

In single entry bookkeeping the loss or gain is determined by the resource and liability method, as the nominal accounts recording revenue income and expenditure are not kept.

When books are kept by double-entry the loss or gain is determined by the Profit and Loss Account method. The procedure is as follows: the gross profit having been determined by the Merchandise or Trading Account, the amount is transferred to the credit of the Profit and Loss Account.

All nominal accounts with debit balances are charged, and all nominal accounts with credit balances are credited to the Profit and Loss Account. Depreciations and reserves having been also charged, the excess of the credit over the debit side is the amount of the net profit.

V. State the purpose of (*a*) consignment account, (*b*) shipment or adventure account, (*c*) adventure joint account, (*d*) merchandise company account. Describe how each should be opened, conducted and closed.

The purpose of

(*a*) A consignment account is to show the profit or loss made on sales effected through a second party, called the consignee.

(*b*) A shipment or adventure account is to show the profit or loss made on a particular speculative shipment of goods to another place for sale.

(*c*) An adventure joint account is to record particulars and show the ultimate profit or loss on a trading venture, generally of a temporary character, in which two or more persons join, who agree to share profits or losses in certain proportions.

(*d*) A merchandise company account is to record the transactions and profit or loss of a company formed to conduct adventures and the shipments of merchandise.

(*a*) Goods consigned are credited by the consignor to Merchandise Account, and charged to Consignment Account under the name of consignee. The consignee receives the goods and opens a consignment account with the consignor. He charges it with expenses and commission, and credits it with sales. When the transaction is completed he renders an account sales and remits the balance due the consignor.

(*b*) A shipment or adventure account is opened by crediting merchandise, and charging the account with the value of the goods shipped. It is further charged with all expenses of shipment and sales, and credited with the amounts sold. A credit balance would indicate the amount of net profit on the adventure, which should be credited to Profit and Loss Account.

(*c*) An adventure joint account should be conducted in precisely the same manner—the profit being distributed as agreed on amongst the parties to the venture.

(*d*) The Merchandise Company Account is kept in the same manner, the result of each venture being credited to Profit and Loss Account for ultimate division amongst the stockholders.

VI. Describe the entries necessary to open a set of double-entry books. In what respect is the double-entry system preferable to the single-entry system?

Double-entry books are opened by first preparing complete schedules of assets and liabilities, the excess of the former over the latter being the capital. One Journal entry only is necessary, viz.:

Sundries, Dr. (all assets).

To Sundries (all liabilities, including capital).

Such nominal accounts should also be opened in the ledger as may be found necessary to record income and expenditure, and the books are "opened."

The double-entry system is preferable to the single-entry system because:

(*a*) by means of the trial balance the mathematical accuracy of the posting is demonstrable.

(*b*) by means of the merchandise account the gross profit is determinable.

(*c*) the accuracy of the profit or loss shown by the profit and loss account is confirmed by the balance sheet.

(*d*) all receipts and expenditure, both capital and revenue, MUST appear on the ledger;

(*e*) comparative statistics for fiscal periods of any class of receipts and expenditure are available.

(*f*) profit or loss may be shown on any department, on any commodity sold, or on any article manufactured.

(*g*) the facility offered for a rapid and exhaustive audit is to that extent a deterrent from fraudulent entries.

(*h*) lastly, not only is the amount of profit and loss shown but also the direct source of same.

VII. Describe the process of changing single entry books to double entry. What additional accounts are required? Is it necessary to disturb any accounts already opened in the ledger, or to keep such accounts differently after the change?

Single entry books may be readily converted into double-entry books, in the following manner: First rule off all expense accounts and make up a complete schedule of assets and liabilities from all sources—whether on the books or not. Determine from the excess of the assets over the liabilities the amount of the net capital, and then make the following Journal entry:

Sundries, Dr. (enumerate all assets).

To Sundries (enumerate all liabilities, including capital).

Then open accounts, and post, leaving untouched those items already open on the ledger. A trial balance should be taken off at once to prove the correctness of the opening entries. The additional accounts required would be such as might be necessary from appearing amongst the assets, and such nominal accounts as might be required to show in detail, revenue expenditure and income.

It is not necessary to disturb any accounts in the ledger (except the ruling off of expense accounts as above stated), nor to keep them any differently after the change.

VIII. Describe in detail the manner of closing a double entry ledger. How should the results of the business be stated? Why is property unsold credited to the account to which it belongs before closing? How should worthless and doubtful debts be treated in closing?

First determine the amount of gross profit by crediting Merchandise Account with the inventory at the end of the period, carry amount of gross profit to the credit of Profit and Loss Account, and bring over the inventory as a debit balance in the Merchandise Account. Next close out all nominal accounts into the Profit and Loss Account. Charge off a proper percentage for depreciation, reserve for bad debts, etc., and the excess of the credit side of Profit and Loss Account over the debit will be the net profit.

The results of the business should be stated in the Profit and Loss Account, the confirmation of their accuracy appearing in the balance sheet, under the head of increase or decrease of capital.

Property is credited to the account to which it belongs before closing, because the object in view is to show the actual excess of sales over purchase price of things actually sold. Theoretically it would appear more correct to deduct the amount from the debit side of the account. In closing, worthless debts should be charged to profit and loss account, while doubtful debts should be carried into a suspense account or doubtful debts ledger.

IX. State the entries necessary to open a set of corporation books so that the assets may appear properly on the ledger. What books are necessary in corporation accounting that are not necessary in mercantile accounting? What does the capital account show? Define *preferred stock, common stock, watered stock.*

In opening a set of books for a corporation a complete set of schedules of assets and liabilities should first be prepared and the amount of the authorized capital stock ascertained from the articles of incorporation, a copy of which should be found in the Minute book. The following Journal entry should then be made:

Sundry Assets, Dr.

To Sundry Liabilities (include capital stock).

If the assets do not equal the liabilities some fictitious asset must be entered so as to make the ledger balance. Good Will, Rights and Franchises, Organization Account, are a few of the "fancy" titles used. In the very rare cases where the assets EXCEED the liabilities the balance should be credited to Reserve Account.

If any portion of the capital stock is offered for subscription the amount should be charged to Subscription Account and credited to Capital Account. Stock unissued should appear on the debit side of the ledger under the head of Treasury Stock. Such nominal accounts should be opened as might be found necessary to set forth the transactions clearly. The following additional books are necessary for corporations: Minute Book, Stock or Shares Ledger, Transfer Book, Stock Certificate Book. The Capital Account should show the authorized amount of capital stock.

Preferred Stock is a share certificate entitling the holder to a fixed rate of dividend before any be declared on the Common Stock.

Common Stock is a share certificate entitling the holder to share in the profit earned in the form of dividends if declared. The holder is also entitled to vote at stockholders' meetings.

Watered Stock is capital stock issued for which no value has been received.

X. State the object of *each* of the following: Plant account, capital account, surplus or reserve fund account, redemption fund account, depreciation account.

Plant Account should be charged with the cost of plant and machinery, and with any expenditures which may enhance its value. It should be periodically credited with a proper percentage for depreciation consequent on wear and tear.

Capital Account of a firm should be credited with amount invested, and with profit earned, as shown by the profit and loss account. It should be charged with cash withdrawn. Capital Account of a corporation should show the total amount of its authorized capital stock. Surplus Account should be credited with profits as shown by the Profit and Loss Account. It should show at any time the amount of undistributed profits.

Reserve Fund Account should be credited periodically with such a portion of the profits as may be thought desirable to meet certain expenditures or losses. Thus there may be reserve for bad debts, reserve for depreciation, etc. The purpose of the reserve should always be specified, and it should only be used for such purpose.

Redemption Fund Account is the title applied to an account whose object is to record the amount of money set aside periodically to redeem some given obligation (generally bonds) at some future time. The Redemption Fund

Account should be represented by a credit balance, while the fund itself, consisting of cash or investments, would of course be a debit item.

Depreciation Account should show at any time the amount set aside out of earnings to replace plant, machinery, etc., when worn out.

XI. What should be done regarding the books on the admission of a new partner into a firm? What entry should be made (*a*) when cash is invested for a certain share in the gains and losses (*b*) when a specified amount is paid to the old members for a certain share in the gains and losses?

An inventory should be taken, the books closed, and capital accounts adjusted.

(*a*) The amount invested should be charged to Cash Account, and credited to the new partner.

(*b*) The amount should be divided between the old partners pro rata. It need not necessarily be placed in the business. The old partners should be charged, and the new partner be credited with such an amount as may be necessary to give expression to the agreement.

XII. What is understood by cost or factory bookkeeping? What is shown by the cost books? What are the principal items entering into the cost of manufactured products?

By cost or factory bookkeeping is meant the keeping a detailed record of the cost of different articles manufactured. The debit side should show their actual cost. The cost books should show prime cost, cost and quantities manufactured.

The principal items entering into cost are:

Material (including freight); Labor; Direct and departmental expense of production; Superintendent's wages, etc.; Depreciation of buildings and plant; Light, heat, rent, insurance and taxes, depreciation, salaries, etc.

XIII. What is meant by the voucher system of bookkeeping? Describe the voucher record book.

The voucher system of bookkeeping is designed to obviate the necessity of keeping individual accounts with creditors, while affording complete detailed analysis of expenditure under classified headings. As bills are approved for payment they are placed in a voucher folder, and the analysis of expenditure is entered in columns ruled at the back. Each folder is numbered and passed on for entry in the voucher record book.

The voucher record book contains columns for the numbers of the vouchers, names of creditors, total amount of bills, and a separate column for each item of expenditure. At the end of the month the totals of the first column is posted to the credit of an account entitled "Vouchers Payable" in the general ledger. The total of every other column is posted to the debit of the nominal account whose heading it bears, thus completing the double entry. A separate column is kept in the cash book for vouchers payable paid, the total of which is monthly posted to the debit of that account in the ledger.

The balance of the ledger account would show monthly the total amount of accounts payable unpaid.

XIV. How should executors' and administrators' accounts be stated for the purpose of filing in court? What does the summary of accounts usually include? What are *assets of the estate?* When are dividends, interest and rents to be treated as principal? Define an *intermediate account.* What is *a final account?* With what does the executor charge himself? For what does he take credit?

They should be filed in such a way as to show under the head of

(1) Principal—Amount of inventory at start and particulars of income and expenditure under this head in schedule form, the balance being added to the inventory, showing "balance" of principal.

(2) Income—Particulars of all receipts and expenditure coming under this head in schedule forms. The summary of accounts shows totals of principal and income, receipts and expenditure and the balance available for distribution.

Assets of the estate are all personal property, *i.e.,* generally speaking, everything except real estate.

Dividends, interest and rent are to be treated as principal when they were accrued at the time of the death of the testator.

An intermediate account is one filed at any time previous to the final account. It may be made at any time by an executor voluntarily, or he may be ordered to file one at any time by the Surrogate.

A final account is one submitted showing the balance in the hands of the executor available for distribution prior to its judicial settlement.

The executor charges himself with the assets of the estate and any balance of increase, of principal or excess of income receipts over income expenditure.

He credits himself with all payments made by him, including commission.

XV. What is the duty of the assignee's accountant in the case of an assignment? How is the inventory stated? What are included in the schedules? How is the assignee's account stated for submission to the court? What does the summary of account usually include? With what does the assignee charge himself? For what does he take credit?

To prepare an inventory of all property coming into the possession of the assignee and to prepare a statement of affairs. He should also open a new set of books designed to show in detail the transactions of the assignee. The inventory states in detail particulars of all the property, the quantity and estimated value. In the schedules are contained a list of accounts receivable at nominal and estimated realizable value, also accounts and bills payable.

Preferred claims are deducted from the assets. It should be shown in schedule form, and disclose the amount of property which came into his possession, the amounts received by him, and his expenses of administration. It should also show the balance available for distribution amongst the creditors. The summary of account shows the total amounts received as per schedule, and total expenditures; also the balance available for distribution.

He charges himself with all that he receives and takes credit for all that he expends. He charges himself also with any increase over estimate in the amount realized by assets.

June 1899.

I. State and explain the *two* principal purposes for which accounts are kept.

The two principal purposes for which accounts are kept are: (*a*) To preserve such an explicit record of every transaction that its exact nature may be perceived at once.

(*b*) To classify them in such a manner that the total result of the transactions for any given period may be readily obtained.

II. What important features of a business are shown by double entry bookkeeping that single entry books can not show? Explain clearly.

(*a*) Not only the *amount* of profit or loss for any given period is ascertainable, but also the source of same—whether by departments or class of goods sold. In single entry, the amount of the profit only is shown by comparing the total resources by the total liabilities.

(*b*) Not only is the net profit shown by means of the profit and loss account, but also the gross profit by means of the merchandise or trading account. In single entry the merchandise account is not kept. By means of this account, it is also possible to determine the actual or approximate amount of the inventory at the end of any given period by calculating the percentage of gross profit for past years. This is a most important and valuable piece of information in the case of a fire.

(*c*) All expenditure must be recorded and all receipts accounted for.

(*d*) The trial balance is *prima facie* evidence of the correctness of the posting, and incidentally, comparative statistics of monthly receipts and expenditures under classified headings are available.

(*e*) The use of the columnar system in books of original entry minimizes the labor of posting and facilitates analytical information.

(*f*) The superior facility offered for an exhaustive and rapid audit is—to that extent—a deterrent from fraudulent entries, and other irregularities.

III. Describe the ordinary merchandise account and state its purpose. Does it fully accomplish the purpose desired? Give reasons for your answer.

The ordinary merchandise account is first charged with the amount of the inventory at the commencement of any fiscal period, and with all purchases and returns by customers. It is credited with all sales; with returns to creditors, and with the inventory at the end of the period. The excess of the credit over the debit side is the amount of gross profit, which is charged to merchandise account, and credited to profit and loss account. Its purpose is to show the amount of gross profit and the amount of purchases and sales.

It does not; because the amount of the inventory, an indispensable factor in determining the gross profit, is never shown, except when specially taken at the end of a stated period. Again, while the amounts of sales, purchases and returns may be found by analysis of the contents of the account, the balance as it appears at the end of every month in the trial balance is meaningless.

IV. Describe a voucher record and the process of conducting a vouchers payable system. State fully the advantage of this system.

A voucher record is a columnar journal designed to do away with the necessity of keeping ledger accounts with creditors individually. It is ruled with parallel columns for voucher number, date, name of creditor, total amount of bill, and as many additional columns as may be found necessary to distribute the analysis under classified descriptive headings of purchases. The total of the first column is posted monthly to the credit of an account called "vouchers payable" in the ledger, and the separate total of each of the other columns is posted to the debit of the nominal account corresponding to its title—thus effecting the double entry. As bills are passed for payment, they are encased in a voucher folder whose face bears analytic columns, corresponding to those in the voucher record book. The particulars are then filled in and the voucher is passed on to be recorded. When a check is sent in payment, it is charged in the voucher payable column in the cash book, the total of which is posted monthly to the debit of the vouchers payable account in the ledger. The balance of this account represents the amount of accounts payable. The advantage of the system is the facility afforded for minute analysis in the record of expenditure, and the enormous saving of labor in posting.

V. Recommend, with all necessary explanations, a set of books peculiarly adapted to the use of a firm that deals exclusively in butter, cheese and eggs, at wholesale, retail and on commission, and has three branches in the same city, the books being kept at the main store.

It is assumed that all merchandise will be purchased by, consigned to, and supplied to the branch stores from the main office. Each branch store should have two cash books, sales books, and credit books for alternate days—which would be sent to the office to be recorded on the books kept there. Cash books should be ruled for cash sales and credit sales—separate columns being provided for butter, amount and lbs.; cheese, amount and lbs.; eggs, amount and dozens. The sales books should be ruled so as to afford the same information. The total quantities sold should be monthly deducted from the quantities charged to the branches by the main office; the difference should shew the inventory.

The actual inventory will always be actually *less,* and the difference, the shrinkage, should be written off monthly.

At the main office should be kept a General Ledger, Purchase Ledger, two branch store Customers' Ledgers, Cash Book, Purchase Journal, Sales Journal, and for record of consignment "pick up" sheets.

Purchases should be passed through the purchase journal as to quantity of commodity and amounts, credited to the vendor, and charged in the General Ledger monthly to the commodity account.

Sales should be passed through the Sales Journal in the same way, charged to customers or branch stores, and credited monthly to the commodity accounts.

Total purchases, less total sales, should shew the inventory monthly; the shrinkage should be written off.

The General Cash Book should have columns for cash received daily from each store and that received at main office. Total received for each store is monthly credited to customers controlling account for each branch store kept in General Ledger. The General Cash Book should also have rulings for expense columns for each branch store and such additional ones as may be necessary to divide up the business of the main office.

Branch store's customers' ledgers should be daily posted —sales, cash and returns—from books sent up to the main office and a general ledger account in each will make them self-balancing—corresponding in amount to the branch store's customers' controlling account in the General Ledger.

Consignments should each receive a "lot" number and particulars as to quantities, &c. As goods are disposed of they should be entered on the sheet and a sales slip passed through to charge customer in Sales Journal. When a "lot" is disposed of, the amount realized less commission and expenses should be credited to consignor on the General Ledger through the Purchase Journal and the total net cost thus shewn charged to the particular commodity account. A check to consignor will then close up the account.

At the main office the following results can be shewn:

(*a*) Amount and quantity of every commodity purchased and sold by main stores and the gross profit and net profit on the whole business. Amount and quantity of every commodity sold by branch stores, the amount of stock on hand, the amount owing by their customers and the gross and net profit earned.

VI. Define the following terms as applied to accounts: *Personal, real, nominal, resource, liability.* Mention *two* real and *three* nominal accounts.

Personal—with persons.

Real—real value.

Nominal—names only. They contain items of income and expenditure.

Resources—another for assets—*i. e.,* what one owns, either in possession or action.

Liability—what is owed.

Two real accounts—cash, plant and machinery.

Three nominal accounts—interest, discount, wages.

VII. Describe the nature of the following accounts: Consignment, trading, suspense, construction, subscription.

A consignment account is one kept by a person called the consignee to record his transactions in selling the goods of another person, called the consignor. It records cost and selling price of goods, expenses attending the handling of same, and his profit on the transaction.

A trading account is designed to show the gross profit on sales. It is charged with purchases, and expenses attending the same, and credited with sales, and with inventory at time of stock taking. The excess of the credit side over the debit sides is the gross profit.

A suspense account is one opened to contain those accounts receivable whose realization is doubtful. Any amount received on account should be credited and the balance, if found uncollectable, should be carried to Bad Debt account.

A Construction Account is one designed to record the cost of constructing buildings, roadbeds, etc., of railroads, It comes under the head of capital expenditure.

A subscription account should be charged with the total amount of capital stock offered for sale. The journal entry would, of course, be—Subscription Account Dr., to Capital Stock Account.

VIII. Formulate and explain a rule for determining whether an account should be debited or credited in any given transaction. Explain the application of the principle.

(*a*) Personal accounts: if the amount will be received, debit; if not, credit.

(*b*) Real accounts: debit the account which is increased, and credit the person from whom received.

(*c*) Nominal accounts: debit what is not to be received; credit what is.

Example (*a*) Sold goods to A; the amount will be received; debit A. Purchased goods from B, the amount will not be received; credit B, etc.

IX. Describe a safe and easy system of keeping the account of goods returned, (*a*) as buyer, (*b*) as seller.

(*a*) As buyer, when goods are returned, the stockkeeper should make out a slip with name of firm to whom returned quantity of goods, price, etc., and pass same in to the bookkeeper for entry in the return book and for mail advice. Each slip should be consecutively numbered, be signed by stockkeeper, and by shipping clerk. After being entered in the return book by the bookkeeper, each slip should be preserved as a voucher.

(*b*) As seller, particulars of goods returned should be entered on a slip and turned over to the stock clerk, who should enter in stock book, sign slip, and pass on to bookkeeper for entry in the credit book. Slips should be consecutively numbered and preserved as vouchers. In each case, the design should be to have the record pass through as many hands as possible.

X. State explicitly and fully the function of the profit and loss account. Distinguish between the function of the profit and loss account and that of the balance sheet.

The function of the profit and loss account is to determine by a comparison of the balances of the nominal accounts whether a profit or loss has been made for some stated period. If the total credit balances preponderate, a profit has been earned; if otherwise, a loss. While the function of the profit and loss account is to determine this point, that of the balance sheet is to disclose the exact financial position of a firm at a given moment. It also confirms the result shown in the profit and loss account by exhibiting a corresponding increase in the surplus of assets over liabilities.

XI. Some proprietors keep a private ledger of their business, to which bookkeepers and clerks have no access. Explain the purpose of such a book, and show what accounts it usually contains and how it is made to agree with the general ledger.

The purpose of the private ledger is to contain such accounts as may be deemed desirable to be kept from the knowledge of the general office staff. It usually contains capital account, profit and loss account, loans, investments, etc. Appended to the general trial balance sheet, is an account marked "Private Ledger." The difference between the total debit and credit balances in the private ledger inserted here should make the general trial balance correct. If this balance be kept in the hands of the principal, a perfect check against "forced balances" can always be maintained.

XII. State the theory and purpose of *each* of the following, and show wherein they differ: (*a*) reserve fund, (*b*) sinking fund.

Properly speaking, any "fund" should be represented by a debit balance, *i. e.,* it should be in the form of some specific investment. The corresponding liability would be the "account." A reserve "account"—not "fund"—is formed by setting aside periodically some portion of the profits of a concern by a charge to revenue account, and a credit to reserve account. The purpose of the reserve should always be clearly stated and used only for such purpose. If it be a reserve "fund," the amount should be represented by some specific asset.

The difference between the reserve fund and the sinking fund is this: That whereas the necessity of the former may be contingent—that of the latter is absolute—inasmuch as it is a sum of money accumulated by installments to liquidate a liability of stated magnitude at a designated time.

XIII. State the general theory of the balance sheet. On what theory does the English form of balance sheet differ from the continental and American form? Give an argument either for or against the English form.

The general theory of the balance sheet is, that it is an exhibit in condensed form of all the accounts in the ledger at a particular moment of time. The English form differs from the American and continental on the theory that the latter represents the closing balance account as exhibited in journal form, while the former represents the opening form. The advocates for the English form deny that the balance sheet is an account; and also affirm that in their form the proprietor is a debtor for his liabilities and a creditor for his assets. There is no doubt that the passage of the English Companies Act of 1862 is largely responsible for the now almost universal adoption of the English form (liabilities on the left hand side and assets on the right) in that country. The unanswerable argument against the English form is, that the balance sheet is not an extract from the journal, but from the ledger, and that being so, there is no valid reason why the sides of the accounts should be transposed.

XIV. Define *permanent assets, floating assets.* Show how each should be treated in ascertaining the standing of a business at any specified time. State the theory of each step in the process.

Permanent assets are those continually required for the proper conduct of a business, and being constantly used, are subject to depreciation in value through wear and tear. In ascertaining their value at any given time, purchase prices should be examined and each account scrutinized to see that repairs and renewals have not been added to the cost. Further, care should be exercised to see that a proper amount has been written off periodically for depreciation. If any doubt still remains as to their actual value, the services of a competent appraiser should be invoked.

Floating assets are those which fluctuate in amount from time to time and constitute the working capital of the business.

Cash can, of course, be verified, merchandise can be appraised, bills receivable can be inspected, accounts receivable can be gone over, and a proper deduction made for doubtful accounts, discounts, etc.

XV. Describe *two* forms of sales ledger and the process of entering the sales in each. Explain the advantage of each form.

The first form would be the ordinary ledger ruling; sales as made being charged to customer under proper date, folio of sales book, "To Sundries." While quite convenient for the record of ordinary mercantile transactions, "sundries" would be ordinarily unintelligible to retail customers. For retail stores, another form of ruling would be advantageous containing two parallel debit columns and the ordinary credit column. The first column would be a detailed transcript of the sales book as to items—the total of each bill being extended into the second column—which is the one considered by the bookkeeper in taking off his trial balance. The first form entails less work in posting, but the second one is necessary for retail stores, as the statement rendered monthly can be made out in itemized form from the ledger direct, instead of the bookkeeper having to look up his items from the sales book.

January 1900.

I. What is meant by *double entry* and how does it differ essentially from single entry? Show the advantages of recording every business transaction in two or more different accounts.

By DOUBLE ENTRY is meant the recording of the same amount twice; once on the debit and once on the credit side of the ledger. The entries, either individual, or in gross total equalling one another, balance. This balance check demonstrates the mathematical accuracy of the posting, and is the essential feature of double entry as distinguished from single entry, where each amount is only recorded on one side of the ledger, either as a debit or credit. The advantage of recording every business transaction in two or more accounts is, that if assets are created, the source of their derivation is recorded at the same time; if liabilities are incurred, the reason for same is stated. If revenue expenditure is charged, it appears under specific heading, and the corresponding liability recorded; if revenue income be entered, it shows the source from which it arises. Finally, the profit or loss, as disclosed by a comparison of the totals of the revenue accounts, is confirmed by the increase or decrease of assets over liabilities in the balance sheet.

II. State what is indicated by *each* of the following ledger accounts, (*a*) when the account shows a debit balance, (*b*) when the account shows a credit balance; loss and gain, merchandise, customers' ledger, purchase ledger, Chicago branch or agency, insurance, rent, interest, commission. Explain fully.

(*a*) Debit balance:

Loss and gain—the amount of the loss for a given fiscal period.

Merchandise—(when active) that the amount of sales has not yet exceeded the amount of the inventory at the commencement of the period and purchases to date; (when passive) the amount of the inventory at some specific date.

Customers' Ledger—total of account receivable.

Purchase Ledger—excess of payments to creditors over amounts credited to them.

Chicago Branch or Agency—amount due by same.

Insurance—amount paid for Insurance.

Rent—amount paid for Rent.

Interest—amount paid for Interest.

Commission—amount paid for Commission.

(*b*) *Credit balance:*

Profit and Loss—amount of net profit made for a certain period.

Merchandise—excess of sales over purchases and inventory at commencement of period. When present inventory is added to credit side, or debited from debit side, the excess as balance shows the Gross Profit.

Customers' Ledger—*total amount overpaid* by customers.

Purchase Ledger—total amount of accounts payable.

Chicago branch or agency—the profit made by same.

Insurance
Rent
Interest
Commission } Excess of income over expenditure.

III. Describe a private ledger. Describe the process of opening a private ledger for a mercantile firm. What relation would the private ledger bear to the general trial balance?

A private ledger should, as its title imports, be designed to contain accounts, the details of which it is deemed desirable to keep from the knowledge of the general office staff, and to which only principals and their confidants should have access. Ordinarily it would contain the capital investments, profit and loss, and such other accounts as would be needful to determine and record increase or decrease of capital or surplus.

In opening such a ledger for a mercantile firm, the balances of such accounts as are intended to be kept in it, should be entered in one total in a "controlling account" in the general ledger. All items posted in the private ledger could be entered by totals in this account, and then a general trial balance could be taken off without disclosing the initial contents of the private ledger.

IV. Define *auditing, accounting, bookkeeping,* and show the relation of each to the others.

Bookkeeping is the recording of transactions in proper books of account.

Accounting is the designing of forms of account and systems to be carried out in the bookkeeping so as to show the results in proper forms. The work of the accountant is generally constructive.

Auditing is the examination and verification of the work done, and is occupied in detecting:

(1) Errors of principle; (2) technical errors; (3) fraud.

The work of the auditor is generally then analytical.

V. You are required to suggest a method of bookkeeping and to undertake the annual balancing of the books of a large wholesale or jobbing establishment. What general methods in the bookkeeping would you recommend, and what plan would you adopt to expedite your work?

In general, it would be desirable to have such properly designed books of account on the columnar system as would (1) insure the smallest labor in posting, (2) give the fullest amount of detailed departmental statistics as to income and expenditure; and (3) would afford the greatest facility for rapid and systematic audit.

In the bookkeeping method, the ledgers should be divided up on such principles as the magnitude of the business called for, and each one made self balancing. Properly kept, controlling accounts in the general ledger would enable the books to be closed and balance sheet drawn up at any time without waiting for accurate schedules of accounts receivable and payable to be taken off from the other ledgers.

VI. Describe a sinking fund. How should the account of such a fund be conducted in the case of a manufacturing corporation that bonds its works for $100,000, payable in twenty years, and wishes to accumulate during that period the sum necessary to retire the bonds at maturity?

A sinking fund is the term applied to an account to which is charged such a sum (kept invested) from time to time, as will (with or without interest) equal a given liability, which it is desired to extinguish at the end of a given term of years. In the case above, the fund could be raised, (*a*) by investing $5,000 annually and crediting the income to surplus or reserve account; (*b*) by investing such a sum annually as would, with interest at a specified rate, amount to the sum of $100,000 in twenty years. According to the latter method, it is found that $1 invested annually for twenty years at 5 per cent. compound interest will at the expiration of that time, amount to $34·719.

$$\frac{\$100{,}000.00}{\$34 \cdot 719} = \$2{,}880.27.$$

So $2,880.27 invested annually at 5 per cent. compound interest would in twenty years amount to $100,000.

That sum therefore should constitute the annual contribution to the sinking fund.

VII. What is a *controlling account?* Give an illustration of the use of such an account.

Controlling account is the title of an account so kept in the general ledger as to show exactly in gross the amount of outstanding accounts receivable or payable, without the necessity of waiting for the proved schedules from the bought and sales ledgers. If this account be kept by one person and the other ledgers divided up among several others, the correctness of their contents as evidenced by schedules is *controlled* by the controlling account, *e. g.*, their accuracy is tested and proved by the figures called for in the controlling account. As an illustration, take "controlling account" customers' ledgers. Say that the total amount due by customers at time of opening the account was $10,000:

To Balance....	$10,000.00	By Cash........	$4,250.00
To Sales	5,000.00	By Discount....	250.00

Total amount of accounts receivable are at once found to be $10,500.00, and the schedules in the sales ledger should equal this amount.

The value of this account can be estimated when it is seen that at the close of any fiscal period a balance sheet can be very quickly made up without waiting for the proving of the trial balance by means of correct schedules of accounts receivable and payable.

VIII. Show what is meant by the following terms: Closing the books, balancing the books, making out a statement, preparing a balance sheet, taking off a trial balance.

Closing the books, means closing out nominal accounts into the profit and loss account, preparatory to making up a balance sheet.

Balancing the books means checking the postings, etc., and proving the correctness of same by means of a correct "trial balance."

Making out a statement, means the rendering of a copy of the items on each side of a ledger account showing balance due from a debtor.

Preparing a balance sheet, means the making up in proper form of the total assets and liabilities of a firm at a given date, with proper references to schedules, etc.

Taking off a trial balance, means the drawing off on sheets of all the balances contained in a ledger and proving the correctness of the same by the total footings of debit and credit balances being equal.

IX. Describe a means for the protection of a manufacturing company in the purchase of necessary materials and supplies and in the payment for such materials and supplies.

The principal points to be borne in mind in devising a protective system, are:

(*a*) In purchasing necessary materials and supplies:

1. To be able to tell by means of records who requested their purchase.

2. For what purpose they were required.

3. Who signed the order for purchases.
4. Who received the goods.
5. Who recorded their entry into stock.
6. Who recorded consumption or sale.

Properly designed requisitions, calling for signatures at every stage of the handling of things purchased, also fixing responsibility upon a certain individual will constitute a thorough check, and the more hands the requisitions, etc., pass through, the less liability there is of collusion on the part of dishonest employes.

(*b*) In paying for same, orders, etc., would be attached to bills which should be checked as to correctness of prices by the party ordering them; passed into the counting house for checking of extensions and additions before being passed through the books for payment. .It need scarcely be added that payments should always be made by check.

X. State the process of making a trial balance of a single entry ledger. How may the loss or gain be determined from books kept by single entry?

In order to take off a trial balance of a single entry ledger, it must be pre-supposed that every item posted in the ledger has been passed through the day book or journal. The footing of both sides of each ledger account should be entered on a sheet and the *excess* of the total of one side of all the accounts over the other will be the "balance of the ledger." If posted and taken off correctly, they should exactly equal the total of the difference of the total sides of the day book. The proof of the correctness therefore consists in equal *balances* of day book and ledger instead of equal debits and credits.

The loss or gain is determined from books kept by single entry by comparing the total assets with the total liabilities, the excess of the one over the other constituting the net gain or loss for the period under review.

XI. A mercantile house draws on its customers at sight, depositing its drafts in bank. Occasionally a draft is returned dishonored. What entry should be made when a draft is drawn, and what counter-entry should be made when the draft is returned dishonored?

Sight drafts should be treated as checks and should be credited on the cash book to the person on whom drawn previous to deposit in bank.

When the draft is returned dishonored, a check should be given to the bank in payment of same, and expenses (if any), which should be charged in the cash book to the party by whom draft was dishonored.

XII. Describe a plan for handling invoices of materials purchased for the use of a factory, payments for which are to be made at the best discount date.

The simplest and most expeditious method is, after the invoices have been checked and passed through the books, to deposit them in files (each file containing one month's due payments) under the date for payment which will enable the best discount rate to be obtained. The cashier daily draws checks for all invoices, due on that particular day, as per file.

XIII. Describe an approved system of recording and vouching petty cash transactions.

A check should be drawn for such an amount as may be deemed advisable, which is charged in the general ledger to "office cash account." The cashier should personally enter same in the petty cash book. The one side of the petty cash book should record receipts from general cashier; the other should be ruled with as many columns as may be necessary to classify the expenditure made. Cash as paid out should be charged under its proper column, and there should be consecutively numbered vouchers for every payment, with such supplementary proof as is obtainable. Carfares vouchers might be initiated by persons to whom paid; postage stamps vouchers initiated by general cashier, etc. At the end of every month the expenses are added and the balance brought down. The totals of the expense columns are charged (by journal entry) to the proper account in the ledger, and office cash account is credited. The balance of the ledger account would then agree with the balance shown by the petty cash book. It need hardly be added that no ledger accounts should ever be paid through the petty cash.

XIV. Give the ruling of a stock or shares ledger for a corporation. Show how this book is kept, and indicate its relation to the general books of account.

Dr. JOHN BROWN. **Cr.**

Date		Certificates	No. of Shares	Par Value	Date		Certificates	Installments	No. of Shares	Par Value
March	6	Renewed by No. 40	400		Feb'r	4	No. 10		500	
"	6	Transf'd to J. Davis	100							
					March	6	No. 40		400	

This book is kept to show the number of shares held by each stockholder of a corporation, as required by law. From it, voters' lists and dividend lists are prepared. The stockholder is credited with the number of original shares issued to him, or with those he became possessed of by transfer. He is charged with the number of shares he transfers to other parties. Original stock is posted from the stock certificate book; transfers from the transfer book, which is virtually the shares ledger journal.

It has no direct relation to the general books of account further than this: While the capital stock account in the general ledger shows the gross amount of stock issued, the shares ledger gives the names of the stockholders and the amount of stock held by each.

XV. Illustrate a columnar cash book, a columnar journal, and a columnar sales book. What general requirements should be observed in designing such books? Give an estimate of the utility of the columnar plan.

(*a*) Cash Book.

DR. CASH. CASH. CR.

Date.	Name.	Cash.	Discount.	Total.	Date.	Name.	General.	Discount.	Expense.	Total.

(*b*) Journal.

DR. CR.

	Expense.	General.	Name.	Name.	General.	Commissions.	

(*c*) Sales Book.

Name.	Butter.		Cheese.		Eggs.		Total.	

In designing such books, the nature of the business has to be carefully considered so as to comprehend in the system complete analysis of income and expenditure under proper classification, and so as to furnish full details of the origin of profit or loss on every class of goods, sold or manufactured. Its utility is of great value, where the ends as above indicated, are constantly borne in mind. The amount of posting is considerably lessened; and while there is always the possibility of items being intentionally or unintentionally placed in wrong columns, the intelligent application of the principle will result in advantages greatly exceeding its weaknesses.

June 1900.

I. State *one* general rule that will embrace all the principles governing double entry bookkeeping. Define *journalizing,* in its broadest sense.

For every debit there must be a credit of corresponding amount.

Journalizing in its broadest sense is the arranging in systematic form for posting in the ledger the record of transactions whose entry in other books of original entry is not provided for.

II. What is the result of a debit entry? of a credit entry? Illustrate in the case of an account of *each* of the following classes: (*a*) personal, (*b*) real, (*c*) nominal.

The result of a debit entry is the record of an asset, or of an expense. The result of a credit entry is the record of a liability or of a source of income.

(*a*) Personal—Mr. B is sold goods to the amount of $20. An asset is recorded; debit him with $20. I buy merchandise from Mr. C for $50, a liability is created, so I credit him with $50.

(*b*) Real—I buy a building for $5,000. An asset is created. I debit building account with $5,000.

(*c*) Nominal—I pay $500 for repairs to building. An expense is recorded and expense account is debited. I rent part of the building and receive $480 for same. A source of income is recorded, so I credit rent account.

III. State the characteristic distinctions between single entry bookkeeping and double entry bookkeeping. What are the advantages of double entry over single entry?

The characteristic distinctions between single entry bookkeeping and double entry bookeeping are: (1) Inasmuch as all transactions to be recorded are transfers of money, or money's worth, every entry must be made twice; once on the debit side, and again on the credit side. (2) Resulting from this, the total debits will equal the total credit, and the ledger be kept in balance. (3) That while the profit and loss account shows the amount of profit or loss for a given period by a comparison of income and expenditure, the result so arrived at is confirmed by the balance sheet. In single entry bookkeeping, income and expenditure accounts are not kept, and the profit or loss is arrived at solely by a comparison of the resources and liabilities at the end of any given period. The advantages of double entry over single entry are:

(1) The gross profit is shown in the merchandise account. (2) The profit or loss, as shown by the profit and loss account, is confirmed by the balance sheet. (3) The proof of the accuracy of amounts posted is demonstrable through the trial balance. (4) The profit and loss account shows not only the amount, but also the sources of profit or loss. (5) The profit or loss made in every department of a store can be shown separately, as well as on separate classes of merchandise sold. (6) By means of the columnar system the labor of posting is greatly lessened. (7) The facility with which a thorough audit can be made is to that extent a deterrent from fraud.

IV. In double entry bookkeeping, why are the debits on the left and the credits on the right?

This is probably only a matter of historical development. Originally there was only one column. A merchant sold goods to a customer, and debited him with the cost. When cash was paid, he credited him in the same column, and brought down the balance (if any). This caused many mistakes, and so a second column was provided for credit entries which was placed further to the right.

V. Define the following accounting and business terms: *Floating capital, fixed capital, quick assets, floating liabilities, nominal accounts, passive assets, passive liabilities.*

Floating capital is another term for quick assets. It is such portion of the assets as is continually varying in amount, and which can be readily collected.

Fixed capital is the amount of the authorized capital stock of a corporation.

Quick assets are cash, and whatever can be readily converted thereinto.

Floating liabilities are those which vary from time to time, such as notes and accounts payable.

Nominal accounts are those which record income and expenditure, as distinguished from personal and real accounts.

Passive assets—another term for fixed assets—those which do not fluctuate in value and which are not available as working capital.

Passive liabilities are such items as capital stock, surplus, reserve accounts, etc.

VI. In making up a business statement or a balance sheet, why are the assets placed as debits and the liabilities as credits? Are there any exceptions to this rule?

The assets on a balance sheet appear as debits because they are items which are owing to the business. The liabilities appear as credits because the business has been trusted with, and owes these items. A second reason is because they appear this way in the ledger. The exception is the English form of balance sheet, where this order is reversed; the liabilities appearing on the left hand side, and the assets on the right. It is fair to add that the advocates for the English form claim that the balance sheet is not an account, and that consequently the terms debit and credit do not apply.

VII. Describe the entries necessary to open a set of double entry books for a firm just starting in business.

A schedule of assets and liabilities should be carefully prepared and each partner credited with the amount of capital contributed by him. The journal entry would be Sundry Assets, Dr., to Sundry Liabilities, care being taken of course to see that the total assets exactly equal the total liabilities, including capital accounts. The items should then be posted in the ledger. Such nominal accounts should be opened as might be necessary to record sources of income and expenditure clearly, and finally, a trial balance should be taken off to test the accuracy of the posting.

VIII. In closing the ledger accounts of an ordinary business for the purpose of a general exhibit of affairs, what order should be observed?

The cash should first receive attention. Cash undeposited should be verified, the pass book balanced and a reconciliation statement prepared showing the difference between the pass book balance and that of the check book. The inventory of goods on hand should then be checked as to footings and extensions, and the total credited to merchandise account, from which the gross profits shown should be transferred to the credit of profit and loss account. The real accounts should then be examined and provision be made for depreciation and prepaid charges. The Bills Receivable and Payable accounts should be adjusted and schedules prepared. The customers' account should next be gone over and provision made for doubtful debts, discounts, etc., by means of a reserve account. Schedules of these and of accounts payable should be made up, profit or loss credited or charged to capital accounts, and a balance sheet drawn up in proper form. It is taken for granted that the books are in balance, and that a correct trial balance has been furnished.

IX. Define and differentiate *reserve fund, sinking fund, depreciation, surplus.* Classify the foregoing as assets or liabilities and give reasons in each case. Explain the meaning of an *item in suspense.*

A reserve fund is a portion of the profits set aside for a specific purpose by debiting profit and loss account and crediting reserve fund account. While the credit is offset by some portion of the assets, when a "fund" is designated, it should consist of some definite investment.

A sinking fund is a fund set aside out of the assets, invested and accumulated at interest for the purpose of liquidating a certain liability at some specified date.

Depreciation is caused by wear and tear of usage, etc. It is offset by crediting the items subject to it and charging the amounts written off to profit and loss account.

Surplus is the amount of the undistributed profits of a corporation. Reserve and sinking funds are both assets, corresponding to the amount of the "account" they represent. Depreciation, if appearing as a reserve instead of being charged to profit and loss, is a liability. Surplus is a liability of the business to the stockholders for profits earned but not distributed.

An item in suspense is one whose realization is doubtful. A customer becomes insolvent. It is doubtful how much will be received in settlement of his account. Pending final adjustment, his personal account should be credited and suspense account debited with the balance due by him. The amount received in final settlement is credited to suspense account, and the balance should be charged to profit and loss account.

X. What is understood by the term *net profit?* State the final disposition of net profit in the books of a partnership; of a corporation.

Net profit is the surplus remaining over from the employment of capital after all expenses and outlays connected with its use have been defrayed. In the books of a partnership profit is credited to the individual capital accounts of the partners in the proportion called for by the articles of copartnership. In the books of a corporation profit should be credited to surplus account.

XI. What is a stock (or shares) ledger? Explain the nature of its records and describe the manner in which they are made. What relation does this book bear to the general books of the corporation?

A stock or shares ledger is designed to shew the amount of the individual holdings of the stockholders of a corporation. The original holdings are posted to the credit of individual accounts in the ledger direct from the stock certificate book. Subsequent purchases or sales are credited or charged to individual accounts from the transfer book. It has no direct connection further than furnishing the names and amounts of stock held by individual stockholders; the total amount to the credit of stockholders agreeing with the amount to the credit of capital stock account in the general ledger.

XII. Describe and illustrate at least *three* forms of ledgers adapted to customers' accounts, and state the form you prefer for some specific class of accounts.

For general business purposes, the ordinary ledger ruling is found convenient; one column for debits, one for credits. For retail merchants it would be desirable to have two debit columns—one to contain the items, and the other the totals of bills, and one credit column. This would enable the bookkeeper to render detailed statements without necessitating recourse to the sales books.

For banks, it would be necessary to have a separate column to show the daily balances of customers. So three columns should be provided: One for deposits, one for withdrawals, and one to contain the amount of the daily balances.

XIII. What plan would you suggest for recording in the books of a large mercantile firm its contingent liabilities incurred by indorsements on bills receivable?

As a note is discounted it should be credited in bills receivable account through the cash book, opposite the amount of the charges, and the letter "d" marked against it. When paid at maturity, the "d" should be marked through with red ink.

XIV. What distinction would you make in an ordinary set of books, as to debits to the merchandise account; incidental expenses of the business; losses such as bed debts, destruction of property, etc.?

Merchandise account should be debited with initial inventory, with purchases, and returns by customers. Incidental expenses should be recorded under properly classified descriptive accounts. Bad debts should be charged to profit and loss account.

Destruction of property should be credited to its proper account and charged direct to capital account.

XV. Give a rule for averaging an account not yet due, for the purpose of settling by note.

Rule.—Fix upon any one of the various dates and multiply the various amounts by the number of days between this date and the dates upon which the sums fall due; divide the sum of these products by the sum of the amounts, and the result is the number of days between the date fixed upon and the average due date. (Lisle.)

Date.	Amount.	Days from Feb. 1st.	Product.
Feb. 1......	$250	0	$ 0
March 21...	$ 50	48	2,400
May 20.....	$500	108	54,000
May 30.....	$200	118	23,600
	$1,000		$80,000

$80,000 divided by 1,000 gives 80 days from February 1st as the equated time.

January 1901.

I. Into what general classes should ledger accounts be divided? State the distinguishing feature of each class. Mention *one* account belonging to each class.

Ledger accounts should be divided into two general classes: nominal and real. The distinguishing feature of each class is that while the former is periodically closed out into the Profit and Loss Account, the latter, after deductions for depreciations, reserves, &c., appears upon the balance sheet. One account belonging to each class: Expense Account, nominal; Plant and Machinery Account, real.

II. State a comprehensive general rule for journalizing. Write in your journal the entries of the following transactions and explain the application of the rule to each debit and credit: You receive from A. Truman, administrator of an estate of which you are a legatee, full titles to property as follows: warehouse on Bond st. valued at $175,000, mortgaged to Ironclad trust co. for $18,000; suburban residence, valued at $8,000; 100 shares Tesla Electric Co., par value $100 a share. Three days later you convey the residence as a gift to your daughter.

Every item charged should have a corresponding amount credited. If an amount will be ultimately received it should be debited—it is an asset. If it will not be received it should be debited—it is an expense. If an item will have to be paid it should be credited—it is a liability. If it has not to be paid but records a source of profit it should be credited.

Journal entries for James Lucky, legatee:

(*a*) Real Estate Dr. $175,000.00.

To James Lucky (capital account), $175,000.00.

(Real estate is an asset and is debited. Capital of J. L. is credited because he will have to be paid this amount.)

(*b*) James Lucky (capital account) Dr. $18,000.00.

To Ironclad Trust Co., $18,000.00

(Here J. L. is debited because the amount will be eventually received from him. The I. T. Co. is credited because they will eventually have to be paid.)

(*c*) Real Estate Dr., $8,000.00.

To J. L. (capital account), $8,000.00.

(Same explanation as (*a*).)

(*d*) Investment Account Dr., $10,000.00.

To J. L. (capital account), $10,000.00.

(Same reason as (*a*).)

(*e*) James Lucky (capital account), Dr., $8,000.00.

To real Estate, $8,000.00.

Residence conveyed by J. L. to his daughter as a gift this day.

(Here J. L. is charged $8,000, amount of real estate; real estate being made less is credited.)

III. What books of a mercantile firm should be treated as books of original entry and be posted direct to the ledger? Give an example of an entry that should necessarily be made in the journal.

Cash book, sales book, purchase book, returns—credited to customers, and charged to creditors, bills receivable and payable book.

John Brown (capital account) Dr. . . . $2,500 00

To furniture and fixtures account. 2,500 00

Damage done by fire in store, J. B. being uninsured. This is a *direct* loss of capital.

IV. State the different steps in the process of closing the ledger at the end of a fiscal period and give the reason for each step.

The inventory having been taken, it is credited to merchandise or trading account—the excess of the credit side over the debit shows the gross profit, which is charged to the account and credited to profit and loss. As the inventory is unsold it is an asset and is brought down as a debit balance. In order to determine the *net* profit, all the nominal accounts with debit balances are charged and all those with credit balances are credited to profit and loss. Provision is made for depreciation, bad debts, interest on capital, etc., by charging profit and loss and crediting specific reserve accounts. The excess of the credit balances over the debit balances is the amount of the net profit.

V. Explain the uses and relations of the petty cash book to the principal cash book. Rule a section of a page of an analytic petty cash book for a jobbing house and make *five* illustrative entries.

The petty cash book should be used only to record payments in currency of non-ledger accounts. The cashier should draw a check for a certain amount—say $50, and charge it in the general cash book to "office cash account." He should personally enter it in the petty cash book. As far as possible the petty cash keeper should procure vouchers for all his expenditures and charge each item under its proper column. Monthly he should foot these columns and a journal entry should be made charging the expense accounts indicated and crediting "office cash account"—

which will then show the same balance as that appearing in the petty cash book. The advantages of this system are that while the cashier has no memoranda to carry, nor bother with balancing petty cash, the balance always appears upon the ledger as an asset, and is in no danger of being overlooked.

DR. CR.

1902		Voucher No.	Car Fares	Tele-phones	Postage	Express	Freight	1902
Aug. 6,	$50.00	1		.35				Aug. 6
		2	.10					7
		3			10.00			8
		4				1.30		9
		5					5.40	10

VI. What is the purpose of a trading account, and what general result should it show? In closing the ledger what disposition should be made of the balance of the trading account?

The purpose of a trading account is to show the amount of purchases, sales, returns by customers, returns to creditors and the expenses attending same. The general result shown is the gross profit on trading, *i. e.*, the excess of sale price over purchase price of goods actually sold. From this the percentage of gross profit is determined. The balance of the trading account should be closed out into profit and loss account.

VII. Explain the theory of goodwill. On what basis should goodwill be valued? Is goodwill a fixed or a floating asset? Why?

Goodwill is the monetary value placed upon the connection and reputation of a mercantile or manufacturing concern, and discounts the value of the turnover of a business in consequence of the probabilities of the old customers continuing. Probably Lord Eldon's definition is as good as any: "The goodwill of a trade is nothing more than the probability that old customers will resort to the same place." The value of the goodwill of a business depends upon the place, the name, and the chance that no one connected with the old firm will step in to compete. The basis of valuation is the capitalized value of the net earnings of a business for a term of years. Goodwill is a fixed asset, because it is in no sense available as working capital.

VIII. Give a rule for adjusting partners' accounts (*a*) when the gains or losses are to be divided in proportion to each partner's investment and the time it remains in use; (*b*) when the proportion of gain or loss is fixed and interest is calculated on excess or deficit of capital.

(*a*) Assuming that profits are divided annually, determine the average amount invested for the year by each partner, add the amount and so arrive at the total net average capital invested for one year. Divide this into the amount of profit earned and the quotient will be the percentage of profit. Credit each partner with this percentage upon his average capital invested for the year and the profits will have been divided.

(*b*) Determine the average investment for the year as before and charge the partner who has a deficit with interest on half the excess capital kept invested by his co-partner and credit same to the co-partner. Then divide profit or loss in proportion stated in co-partnership articles of agreement.

IX. What books besides such as are used by individuals or firms are necessary for recording the transactions of an incorporated company? State briefly the use of each book mentioned.

Minute Book to contain copy of articles of incorporation, bylaws, and minutes of directors' and stockholders' meetings. Stock certificate book—the stubs of which really constitute the journal of the stock or shares ledger. Transfer book—to contain a record of all stock transferred by shareholders. Stock or shares ledger to contain the individual accounts of stockholders and to show the number of shares held by each.

X. How should inventories be treated in closing the ledger at the end of a fiscal period? Is the common practice of adding the inventory of goods on hand to the credit side of the merchandise account theoretically correct? Explain.

They should be credited to the accounts to which the purchases were charged; brought down as debit balances, and appear upon the balance sheet amongst the assets.

It is not theoretically correct to credit the merchandise account with the inventory at the end of a fiscal period. The merchandise account should show the actual cost of *goods sold* on the debit side, and this is best accomplished by *deducting* the inventory from the total of the debits. While the same result is accomplished by crediting the inventory—*i. e.,* in the amount of gross profit shown—the actual cost of goods sold is not apparent.

XI. Mention *four* items of information in addition to those usually shown in the books of a mercantile business which should appear in a set of books for keeping the accounts of a factory. Give reasons for your answer.

(*a*) Wages account to show amount paid for factory labor. (*b*) Materials account to show cost and consumption of items entering into cost of articles manufactured.

(*c*) Plant and machinery to record cost of same and of amount written off for depreciation—a percentage of which contributes to the cost of manufactured goods. (*d*) Stores account to record cost of items which incidentally attend the conduct of all manufacturing establishments.

XII. What class of expenditures should be treated as assets at the close of a fiscal period?

All items of capital expenditure after adequate deductions for depreciation, and such items of revenue expenditurè as would come under the head of prepaid charges, &c.

XIII. Define the following terms as used in factory accounting: cost of production, prime cost, general charges, maintenance, stores, stock, stock debit note, storekeeper, writing off.

By cost of production is meant the prime cost plus shop establishment and general establishment expenses. Prime cost is the amount expended upon raw material and wages in producing a given article.

General charges include office expenses for clerks, salaries, stationery and all other expenses. Maintenance is the cost of repairing plant and machinery, buildings, &c., and keeping same in efficient order. Stores are those items entering into cost of production apart from prime cost. Stock is the amount and quantity of manufactured goods on hand. Stock debit note is a memorandum given to the stock clerk charging his inventory with certain quantities of manufactured goods. Storekeeper is the title applied to the man who takes charge of general stores and issues same on requisition. "Writing off" is a term applied to the deductions made for depreciation and for shrinkage in quantities of raw material, &c.

XIV. What is meant by the surplus, or surplus fund, of a stock company? How is this fund formed? What is its purpose?

By surplus or surplus fund is meant the excess of assets over all liabilities—including capital stock and all reserves. It represents undistributed profits.

The fund is formed by periodically setting aside a portion of the net profits of a corporation.

Its purpose is to strengthen the financial position of a company and to provide an unspecified reserve for contingencies.

XV. Describe a method of keeping the accounts of an executor and state what books are necessary for the purpose.

The books should be kept by double entry. They should show the principal of the estate, which includes all property belonging to testator at time of death after payment of all debts then owing. They should also show what comprises the income of the estate, its sources, and disposition. The books necessary are cash book, journal, ledger, minute book and check book. On the first page of the journal should be entered copies of the will and inventory of the estate with date of filing. The "estate account" should be credited and the various "asset accounts" charged with the items comprising the inventory. Every transaction should be passed through the journal with full explanatory notes, so that any time an accounting is needed full particulars as to income and principal receipts and disbursements may be readily made up, and so that at the final accounting the needed schedules and summary can be readily constructed.

June 1901.

I. Explain the theory of double entry bookkeeping, and state the principal advantages of the double entry system.

The theory of double entry bookkeeping is best explained by reference to the exact qualifying words—double entry, *i. e.*, a twofold entry. In this system every amount is entered in the ledger twice; once on the debit and once on the credit side; and thus the ledger is kept "in balance." If the items are correctly posted the total amount of the debit balances will exactly equal the total amount of the credit balances. Bookkeeping is simply a record of the *transfer* of money or money's worth.

In double entry whatever is taken from one account is transferred to another so that a twofold record is made of every transaction. The principal advantages of this system are: (*a*) the demonstrable mathematical accuracy of the posting by means of the trial balance; (*b*) the classification of expense accounts so that revenue and capital expenditure be clearly distinguished; (*c*) the ability to ascertain gross profit through the trading account; (*d*) the valuable comparative statistics as to sources of income and expenditure which can be readily obtained from the trial balance monthly; (*e*) the ability to ascertain through the Profit and Loss Account not only the amount of net profit, but also the sources from which the profit is derived; (*f*) the ability to ascertain not only the profits of a business as a whole, but also the profit or loss of every department separately; (*g*) the confirmation of the amount of profit or loss disclosed by the Profit and Loss Account by the balance sheet proper; (*h*) the superior facility offered for rapid and exhaustive audit, *and to that extent* acting as a deterring factor in the prevention of fraud.

II. Into how many classes are ledger accounts usually divided? Mention *two* of the principal accounts of each class, and state the purpose of each.

Ledger accounts are broadly divided into two classes: personal and impersonal; these being subdivided into real and nominal. Personal accounts are those kept to record transactions with debtors and creditors, *i. e.*, those to whom goods are sold and from whom they are bought.

Real accounts contain records of amounts of real value—as distinguished from those of fictitious value.

Real Estate Account and Plant and Machinery Account would be two very familiar examples. Nominal is the name given to that class of accounts which closes out periodically into the Profit and Loss Account. They simply record expenditure or sources of income under classified headings. Examples: Commission Account, and Interest Account. Personal accounts are used to charge or credit firms or individuals with money or money's worth.

The purpose of the Real Estate Account is to record amount paid for property and any additions or improvements which increase value. It is credited with amounts received from sales of property and with depreciation, Plant and Machinery Account is to contain cost of these items and additions made to same from time to time. It is credited periodically with a certain percentage for depreciation in value caused by usage.

Commission Account is to record total amount paid and received for commission during any given fiscal period.

Interest Account is to show the amount of income and expenditure under this heading.

III. Define current assets, current liabilities. Give *two* examples of each.

The term *current* literally means "running," so that current assets and current liabilities may be defined as those which are actively running.

Examples of current assets are Accounts and Bills Receivable; of current liabilities Accounts and Bills Payable.

IV. Define capital, nominal capital, subscribed capital, paid up capital, goodwill.

Capital in its broadest sense should be defined as the amount of money or money's worth embarked in an enterprise. In a more restricted sense it may be stated to be the excess of a man's assets over his liabilities.

Nominal capital is nearly synonymous with "authorized" capital; it means "capital in name"—*i. e.,* the amount stated may, or may not, be actually paid in. Subscribed capital is the amount for which subscriptions have been secured and which need not be actually paid in in full at the time of application.

Paid up capital is the amount of capital actually paid in as distinguished from the amount of capital authorized.

Goodwill is the capitalized value of the net earnings of a business for a specified term of years.

V. Define the following terms: balance sheet, reserves, items in suspense, surplus, impairment.

"Balance Sheet" is an exhibition in condensed form of all the assets and liabilities of a business after all nominal accounts have been closed out into the Revenue Account.

"Reserve"—a term applied to portions of the profit of a firm or a corporation set aside for specific purposes—*i. e.*, reserve for improvements, reserve for depreciation, &c.

"Items in Suspense" are those accounts whose ultimate realization or liquidation is doubtful.

"Surplus" is the net amount of undistributed profits.

"Impairment" is the creation of deficiency of assets either by business losses or by the payment of dividends when no surplus exists out of which to pay them. The capital of a corporation is supposed to be kept intact, *i. e.*, the assets must equal liabilities and capital stock. If the assets are less, a deficiency is created and hence the capital is said to be impaired.

VI. Describe the merchandise account and its use. State how it should be used in (*a*) a jobbing or wholesale grocery business, (*b*) a department store such as that of Wanamaker or of Siegel-Cooper Co., (*c*) a manufacturing firm making agricultural implements.

The Merchandise Account is usually charged with the inventory on hand at the beginning of a fiscal period, and with purchases, and returned sales during the period. It is credited with sales; and with amounts of goods returned to creditors. It is credited with inventory at the end of the period and then if the credit side exceed the debit side, the amount of the excess is the gross profit for the period, which is charged to Merchandise Account, and credited to Profit and Loss Account.

The use of this account is to determine the amount of the gross profit of a business for any particular fiscal period.

(*a*) In a wholesale grocery house this account should be subdivided so as to show the gross profit or loss made in the sale of specific items, such as tea, coffee, flour, canned goods, etc. An account should be opened for each item, showing purchases, sales and costs incidental thereto. Periodically these should be closed out into the general Merchandise Account, which would then show the gross profit on the whole business.

(*b*) In a department store like that of Wanamaker the object would be to show the gross and net profit by *departments,* and the Merchandise Account should be divided into as many classes as there are *departments.* Silks, linens, boots and shoes, toys, stationery, jewelry, &c., each account as above closing out into the general Merchandise Account.

(*c*) In the case of a firm making agricultural implements, accounts would have to be opened for the various classes of goods manufactured, showing cost of raw material, labor and other items contributing to the cost of the manufactured article—all closing out into the general Merchandise Account.

VII. Describe the process of changing a set of books from single to double entry. Draft an example.

The most expeditious way of changing a set of books from single entry into double entry is to rule off all accounts other than those with debtors and creditors; to make up a complete list of all other assets and liabilities and to credit the excess of assets over liabilities to capital account—opening at the same time such nominal accounts as may be necessary, to set forth the transactions of the business clearly under classified headings. Suppose a schedule of accounts be taken from the ledger and it be found that accounts receivable amount to $10,500.00 and that accounts payable amount to $3,465.26. An examination discloses the fact that there is $18,626.25 in the bank, that there are in the safe $2,500.00 of bills receivable;

that the plant, etc., is worth $4,000.00; and the inventory of stock $7,500.00. It is found that there are bills payable outstanding for $6,700.00. The journal entry would be:

Sundries Dr.

Accounts receivable......	$10,500 00
Cash	18,626 25
Bills Receivable.........	2,500 00
Plant and machinery....	4,000 00
Merchandise acc't (stock)	7,500 00

To Sundries,

Accounts payable.......	$3,465 26
Bills payable...........	6,700 00
Capital stock..........	32,960 99

Accounts receivable and payable are ticked because they are already posted. The ledger will now be "in balance" and such expense accounts, &c., may be opened as are necessary.

VIII. What is the purpose of a private ledger? What accounts are usually kept in the private ledger?

The purpose of a private ledger is to enable the principal of a firm to keep such information as he deems expedient private, and accessible only to himself or his confidential assistant. By it he is also able to control the general accuracy of the general trial balance—by keeping in his own hands the balance total of his private ledger—debit or credit. If the totals handed in from the general trial balance are incorrect he can immediately detect same by adding the total of his own ledger. This check is unfortunately too often overlooked. The accounts usually kept in the private ledger are Capital Account, Profit and Loss Account, and Investment Account; also records of personal drawings, and salaries.

IX. What difference, if any, should be made between the accounts of a firm and the accounts of a corporation in the same line of trade and doing about the same amount of business? Explain.

None, except as to the capital stock account, which is not (as in a firm) increased or decreased by profit or loss. The journal of a corporation should always contain specific reference to the minute book for declarations and payments of dividends, terms of contracts, &c.

X. In preparing accounts for a manufacturing company, on what principle should expenses be divided as between the manufacturing account and profit and loss? Give examples.

All DIRECT expense incurred in the actual manufacture of goods should be charged to manufacturing account as contributing to cost. General expenses and expenses attending sales should go to profit and loss. Labor, raw materials, freight inwards, fuel, light, depreciation of plant, &c., should go to manufacturing account. Salaries, printing and stationery, commission, &c., should go to profit and loss.

XI. In designing a set of accounts for a business, how might provision be made for a constant showing of the aggregate sum owing by customers and the aggregate sum owing to creditors, without the necessity of preparing a schedule of the accounts of such customers and creditors?

By constructing controlling accounts in the general ledger and making every other ledger "self balancing." Take first the "bought ledger," which should contain accounts with creditors. The total amount of purchases credited should be charged to an account opened in this ledger —called "General Ledger Account," and the total amount of cash charged to creditors should be credited to it. The ledger will balance by itself and the debit balance of the

"General Ledger Account" will make a continuous showing of the aggregate amount due to creditors without the necessity of preparing a detailed schedule. The same principle should also be applied to the "Sales Ledger."

XII. In making up the cost accounts on goods produced by a factory, what items of expenditure are to be considered? How should these be combined to show the actual cost of any specified product?

In making up cost accounts of goods produced by a factory the principal items of expenditure to be considered are: (1) raw material; (2) labor. In addition to these: (3) proportion of rent of factory; (4) light; (5) heat; (6) power; (7) supervision; (8) depreciation of machinery; (9) incidental expenses.

In order to show the actual cost of any specified product the actual cost of material used and of labor expended upon its conversion would first have to be calculated and to it should be added the proper percentage (based upon a time calculation) of the attendant expenses above enumerated. These would scarcely be the same in any one business, but the general principle would be identical.

XIII. Draft a form of cash book to be used where all receipts are deposited in bank and all payments are made by check. Illustrate the use of this book by three or more entries.

DR. CASH. CASH. CR.

Date		Ledger Folio	Receipts		Bank		Date		Ck. No.	Ledger Folio	Payment	
July 1	To Balance				1000	00						
July 5	A. B.	64	500	00			July 1	L. S.	54	52	640	00
" 7	J. C.	53	250	00	750	00		S. V.	55	57	50	00
" 9	S. T.	64	450	60				P. R.	56	50	700	00

On the debit side a special column is headed "Bank," to which is extended the total amounts of first column as deposited. As *all* payments are made by check, by deducting the total of the credit side from the bank column total, the bank balance is ascertainable at any time.

XIV. What is meant by a consignment account? How should a consignment account be stated in a balance sheet?

A consignment account records the amount of the temporary transfer of the custody of one person's goods to another. The person who so transfers his goods is called the consignor; the person to whom they are transferred the consignee. The consignor credits his merchandise account and opens an account with consignee to whom he charges the total amount of goods consigned. The account is charged with the expenses and credited with the remittances —the difference showing the profit or loss on the consignment.

In a balance sheet goods on consignment should be stated as such and on no account should appear under the title of Accounts Receivable.

XV. From what accounts is a profit and loss account prepared? In what way is its accuracy proved?

Profit and Loss Account is prepared from the Merchandise Account and the various nominal accounts, and should include such charges as are necessary if deducted from the value of the assets, *e. g.*, depreciation, reserve for bad debts, etc. The accuracy of the Profit and Loss Account is proved by the balance sheet, which arrives at the same results in a different manner.

January 1902.

I. Robinson & Co., wholesale dealers in notions, whose books have not been kept by double entry, wish to improve their system of bookkeeping. Write a brief report, advocating double entry, setting forth the superiority of that method generally, and showing by specific references to the mode of bookkeeping employed by them, the advantages that will accrue from the change.

MESSRS. ROBINSON & CO.,

Dear Sirs:

In accordance with your request, I have made an examination of your books for the year ending December 31st, 1901, and beg to report that a net profit of $97,065.03 has been earned during this period, in support of which I present a statement of resources and liabilities. While the various schedules have been made up with great care, and while I can vouch for the accuracy of the result shown, the confirmatory proof through the medium of the profit and loss account is lacking, because the various nominal accounts necessary to its preparation have not been kept. For this and other reasons set forth below, I strongly advocate the immediate introduction of the double entry system of bookkeeping. A trading account will be opened, which, when the inventory is taken, will show the amount of gross profit earned—*i. e.*, the excess of selling price over cost price of goods actually sold. The percentage of gross profit can be readily seen, and any considerable fluctuation in the rate from year to year noted. Your expenses can be divided up under as many headings as may be necessary to afford detailed information; and with columnar cash books, journals, etc., the mechanical labor of posting can be reduced to a minimum. Inasmuch as every amount is entered on both sides of the ledger, the correctness of the posting of the accounts can be demonstrated monthly in a trial balance. I should recommend that there be opened a General Ledger, Purchase Ledger and Sales Ledgers. Each of these can be made self-balancing, and the opening of controlling accounts in the general ledger will enable a financial statement to be readily made up without waiting for the schedule of accounts from the other ledgers. By introducing a proper system of internal check the danger of irregularities will be greatly reduced, and the work of the auditor considerably lightened. The introduction of this system would only be a matter of a few days' work, as the details can be carried out by your staff under my supervision.

Yours truly,

C. P. A.

II. Your suggestions (see question I) as to a change of method having been approved by Robinson & Co., you have been instructed to make the change at the close of the fiscal year; state in detail how you would proceed from start to point of proof.

In the general ledger I should open a Cash Account, and debit it with the balance on hand December 31st. The Merchandise Account should come next, being charged with the total amount of inventory at that date. The various real accounts should then be opened, each one being charged with the amount shown on the balance sheet. After this, such nominal accounts should be opened as would be necessary to afford the fullest information as to sources of profit and loss. Controlling accounts should then be opened, containing the totals due by debtors, and due to creditors. Finally, the capital account should be credited with the amount shown December 31st. If the posting has been correctly performed, this ledger will now balance by itself. It should be tested by actually taking off a trial balance. The Customers' Ledger (including Bills Receivable Account) should then be opened, and the balance due by each customer charged to him. A balance account should then be opened and this ledger should also balance independently. The work should be proved by taking off a trial balance. Lastly, the purchase ledger should be opened and treated in the same way. A typewritten list of instructions should be handed to each ledger keeper and the system of handling cash and collections should receive careful attention. A proper system of vouchers should be arranged for, and also a proper method for handling the petty cash. Returned merchandise outwards, and inwards, should have separate journals, and supporting vouchers be arranged for every entry. In this way the following results have been provided for: Classification, explicitness, the minimum amount of posting, and the prevention of irregularities on the part of employes.

III. By analysis the debit side of merchandise account shows purchases $60,000, returns to us $4,000, entries offsetting errors in sales extensions $2,000, trade discounts to customers $13,500, balance profit $27,000; the credit side shows sales $90,000, returns by us $5,000, allowances to us $1,500, inventory at close of year $10,000. Suggest such change in the method of recording the foregoing statement as would readily show (*a*) net amount of purchases, (*b*) net amount of sales, (*c*) percentage of profit.

Account as stated.

Purchases	$60,000.00	Sales	$90,000.00
Returns	4,000.00	Returns	5,000.00
Sales Errors...	2,000.00	Allowances ...	1,500.00
Discounts	13,500.00	Inventory	10,000.00
Profit	27,000.00		
	$106,500.00		$106,500.00

(*a*) Net amount of purchases:

Purchases $60,000.00		Returns ....$	5,000.00
		Allowances	1,500.00
		Net amount of purchases...	53,500.00
	$60,000.00		$60,000.00

(*b*) Net amount of sales:

Returns ....$	4,000.00	Sales $90,000.00	
Errors	2,000.00		
Discounts	13,500.00		
Net amount of sales	70,500.00		
	$90,000.00		$90,000.00

(*c*) Percentage of profits:

Purchases (net) .	$53,500.00	Sales (net) $70,500.00	
Less inventory...	10,000.00		
	$43,500.00		
Profit	27,000.00		
	$70,500.00		$70,500.00

$\frac{705}{435} = 62$ per cent.

IV. State generally how the books of a firm doing a manufacturing business would differ from those kept by a trading concern as to (*a*) books of record, (*b*) ledger accounts.

(*a*) The books of record kept by a firm doing a manufacturing business would differ from those kept by a trading concern because a proper cost system should be kept enabling the exact cost of each article manufactured to be readily ascertained. The additional books required would ordinarily be, the record for

(1) Raw material purchased, quantity, price, quantity consumed, inventory.

(2) Labor or Pay Roll books, by departments.

(3) Job or cost account books to record quantity of material and labor consumed, time taken, quantity manufactured, etc.

(4) Manufactured Goods book to contain: Record of goods manufactured, and cost price of same.

(5) Materials and Supplies, to enable record of their use to be kept, and a check maintained upon the inventory.

(*b*) With regard to ledger accounts the manufacturing firm would keep in addition to those kept by a trading concern.

(1) A Manufacturing Account to record cost of goods manufactured.

(2) Labor or Pay Roll Account.

(3) Accounts for different classes of raw materials and supplies purchased.

(4) Plant and Machinery Account.

V. What differences in books and accounts would exist between a partnership and an incorporated company carrying on a similar business?

A corporation, in addition to the usual books kept by a firm, should keep a stock, or shares, ledger, transfer book, and minute book.

As to accounts, the capital of a corporation does not vary, and profits earned instead of being credited to Capital Stock Account should be transferred to Surplus Account. When the profit is distributed in the form of dividends, the total amount declared should be charged to Surplus Account and credited to Dividend Account, which in turn should be charged with the amounts of checks as paid out to stockholders. By Surplus Account here, is meant such undistributed profits as are *not* required to be kept intact by law.

VI. State the scope and value of the trial balance. In case of failure to prove, how would you proceed to locate the difference?

The trial balance is an extract from the ledger, of balances of every open account. If the debit totals equal the credit totals, the ledger is said to be in balance. If the accounts be properly arranged in order, as soon as the inventory is supplied, it is possible to make up a balance sheet or financial statement expeditiously. *Per se,* the trial balance only demonstrates one fact, *i. e.,* that the *amounts* have been correctly posted. It is quite possible to conceive of a proper trial balance with every amount posted to a wrong account. The correctness of the items contained in the accounts must always be a matter for the auditor. In spite of the trial balance the bookkeeping may be full of technical errors, errors of principle, and fraudulent errors, the correction or detection of which is obviously the duty of the auditor. Supposing the trial balance does not prove, the ledger footings should be gone over, the balances checked on to the trial balance sheets, and the totals of the sheets themselves re-added. The footings of the books of original entry should be proved and finally the postings checked. If the ledgers are divided up, and controlling accounts are kept in the general ledger, the work can be materially shortened, inasmuch as the error can be localized, and only that particular ledger be checked wherein the mistake has been made. Even where controlling accounts are not kept, it is nearly always possible to construct one, so as to find out exactly where the error has been made. There are various "Short Cuts" suggested—but it is invariably found that a great deal of time is wasted in applying the tests, and after all recourse is perforce finally taken to the good old-fashioned way of "calling over."

VII. The building of an insurance corporation valued at $500,000 is mortgaged for $300,000. The rental value of the portion occupied by the corporation is $3,500 a year, and there are sixty other tenants in the building. Mention such accounts as should be kept and state the class of transactions to be recorded in each. In what manner and to what extent would the building enterprise be included in the annual financial statement of the corporation?

A "Building Account" should be charged with $500,000 and a Mortgage Account credited with $300,000. A "Building Revenue Account" should be opened and credited with $3,500 annually as rent from the corporation, and also with the rents of the sixty other tenants. This account should also be charged with all fixed charges such as interest on montgage and taxes; also with the operating expenses of the building. The next revenue should be credited periodically to the General Revenue Account of the corporation.

In the annual financial statement should appear $500,000 as an asset; $300,000 as a liability, and the net building revenue should appear as a separate item in the General Revenue Account.

VIII. Outline a statement of assets and liabilities and an annual statement of operations of a manufacturing corporation. State how you would treat *each* of the following items: (*a*) interest paid in advance not fully earned, (*b*) insurance unexpired, (*c*) interest accrued, (*d*) outlay of labor and material on goods not fully manufactured, (*e*) material to be delivered to complete contracts charged up in full, (*f*) depreciation of plant, (*g*) provision for future losses on present outstandings.

BALANCE SHEET.

ASSETS.	LIABILITIES.
Cash.	Notes Payable.
Notes Receivable.	Accounts Payable.
Accounts Receivable.	Reserve for ——.
Inventory.	Capital Stock.
Raw Materials.	Surplus.
Manufactured Goods.	
Goods in Process of Manufacture.	
Plant and Machinery.	
Prepaid Charges.	

(*a*) Interest paid in advance not earned should appear as an asset.

(*b*) Insurance unexpired should appear on the balance sheet as an asset under the head of prepaid charges. Only that portion which has actually expired should be charged to profit and loss.

(*c*) Accrued Interest should be charged to profit and loss, and credit to interest accrued accounts. It should appear on the balance sheet as a liability.

(*d*) Outlay of labor and materials on goods not fully manufactured should appear as such in the inventory at cost—appearing on the balance sheet as an asset.

(*e*) Material to be delivered to complete contracts charged up in full should be charged to Manufacturing Account and either deducted from the inventory or appear on the balance sheet as a liability.

(*f*) Depreciation of plant should be charged to profit and loss account, and credited to plant account, or to depreciation account.

(*g*) Provision for losses on present outstandings should be made by charging the profit and loss account and crediting reserve for bad debts. On the balance sheet the amount reserved may appear as a liability or may be deducted from the accounts receivable.

IX. Describe the following accounts and state where and how they are employed: surplus, goodwill, treasury stock, maintenance, suspense, dividend.

Surplus account should contain the undistributed profits of a corporation. When the amount of profit is arrived at through the profit and loss account, it should be charged at once to profit and loss account and credited to surplus account. In the case of monetary corporations, the accumulation of a certain surplus is obligatory and this surplus must be preserved intact, not being available for dividends.

Good Will is the capitalized value of the net earnings of a business for a number of years. The determination of its value is of importance where a business is sold. The amount paid for it would figure as an asset.

Treasury Stock is that portion of the capital stock of a company which has not been issued. It should appear as an asset.

Maintenance is the term applied to the cost of keeping plant, machinery, roadbed, rolling stock, etc., in good order,

Suspense is an account opened to which all doubtful accounts are transferred. If a client becomes insolvent, his balance should at once be transferred to this account. When final settlement is made, the amount received is credited to Suspense Account and the balance transferred to bad debt account.

Dividend Account is credited with the total amount of dividend declared, and charged with checks sent out to stockholders in payment of same.

X. In a statement of a railway corporation, what is meant by fixed charges, funded debt, floating indebtedness, maintenance of way, maintenance of equipment?

Fixed charges such as interest on bonds, taxes, etc., are a first charge against income after operating expenses. They recur at regular intervals, and do not vary materially in amount.

Funded Debt is the amount of the bonded indebtedness.

Floating indebtedness is all other forms of liability of accounts payable, notes payable, etc.

Maintenance of way is the cost of keeping rails. etc., in good order.

Maintenance of equipment is the cost of keeping stations, rolling stock, etc., in first-class condition.

XI. What is the best way of recording customers' notes so that the true condition of each account may be shown? What is the most approved way of treating the note receivable account (*a*) in the ledger, (*b*) in a statement of affairs?

As soon as a note is received from a customer it should be entered in the Bills Receivable book, and posted at once to his credit. The due date for each note should also be noted in an inner column. As a note is paid the due date in the customer's account should be crossed through with red ink. By the adoption of this plan, the aggregate amount of any customer's indebtedness on open account, and on paper can be readily perceived.

The best way to treat the note receivable account in the ledger is to charge each note singly to the account, inserting the due date in an inner column. As each note is paid, the amount should be posted opposite the charge. By this method a complete schedule will be constantlv maintained, and the chances of error materially lessened.

In a statement of affairs notes receivable should appear in schedule form, giving name of maker, date, and due date. If notes have been discounted there is a contingent liability on same, and such notes should appear amongst the liabilities.

If notes have been endorsed over to creditors in settlement of accounts, they should appear under the heading of contingent liability.

XII. Arrange a plan for keeping a private ledger with which the general ledger will agree and yet in no way reveal the contents of the private ledger. What matters are usually recorded in the private ledger?

The totals of the various accounts in the private ledger should be added, and the total balance of all the accounts should appear as one item, under the head of "private ledger" in the general trial balance effecting a complete proof.

It is usual to keep in the private ledger, profit and loss account, capital investment account, personal drawings, loans and investments, in fact, all such matters as are desired to be kept from the knowledge of the general office staff.

XIII. Suggest one or more plans by which an inventory may be corroborated or impeached.

If the percentage of gross profit compared with former years, as shown by the merchandise or trading account is considerably greater or considerably less, there is a *prima facie* ground for impeaching the accuracy of the inventory, unless valid reason can be assigned for such change. Supposing there is a very marked fluctuation in the percentage of gross profit—say a large increase—the inventory at the commencement may have been taken at too low a figure, or that taken at the end at too high a figure. Goods may have been returned by customers which have been taken into stock, and have not been credited on the books. Again—merchandise may have been purchased, and taken into stock, which has not been credited on the books. If the percentage of gross profit is considerably less—the opposite course may have been pursued, or the firm may have been robbed.

XIV. Describe several economies in accounting made possible by the introduction of special columns in books of original entry.

By the introduction of special columns in books of original entry, the following economies in accounting are made possible:

(*a*) Complete and exhaustive analysis of income and expenditure under classified headings is obtainable by posting totals instead of items.

(*b*) The profit or loss on any department of a business can be shown clearly.

(*c*) The profit or loss on every class of goods manufactured or sold can be determined.

(*d*) By means of a voucher record system the necessity of keeping accounts with individual creditors is entirely obviated.

XV. State the full procedure leading up to the entry of the following transactions in the shares of a corporation, the par value of which is $100:

April 5, 1901. James Williamson receives certificate No. 75 for 100 shares full paid.

May 3, 1901. James Williamson requests a transfer to George T. Jenkins of 30 of his 100 shares.

Outline a form of stockholders' ledger and properly enter the above items therein.

CASH BOOK.

Dr.
1901.
April 15. James Williamson, subscription a/c., $10,000.

This should be credited to Subscription Account, and James Williamson would then receive his certificate for 100 shares.

DR. JAMES WILLIAMSON. CR.

Date		Certificate	No. of Shares	Par Value		Date		Certificate	No. of Shares	Par Value	
1901 May	3	Renewed by 80	70	7000	00	1901 April	5	No. 75	100	10000	00
"	3	Transf'd to G. T. Jenkins 81	30	3000	00						
						May	3	No. 80	70	7000	00

DR. GEORGE T. JENKINS. CR.

Date		Certificate	No. of Shares	Par Value		Date		Certificate	No. of Shares	Par Value	
						1901 May	3	No. 81	30	3000	00

June 1902.

I. On what general principles is double entry bookkeeping based? State briefly a general formula for the correct recording of business transactions.

The general principles on which double entry bookkeeping is based are: (*a*) That as every transaction involves a transfer of money or money's worth, every entry must be made twice—once on the debit and once on the credit side of the ledger. (*b*) That the records of profit or loss disclosed in the nominal accounts must be confirmed by the increase or decrease over liabilities exhibited in the balance sheet. (*c*) That as a result the total debits in the ledger should always equal the total amounts of the credits—the proof of which is demonstrated in the trial balance. A general formula for the correct recording of business transactions would be: Whenever an asset is created or an item of expense is to be recorded, debit; whenever a liability is created or an item of profit or income to be recorded, credit.

II. Two persons exchange with each other their respective notes for $1,000 each; what would be presumably the object of such exchange? What are the risk and the limit (in amount) of risk of each party to the transaction? How should such a transaction be recorded?

The exchange would presumably be for the benefit of one party, but might be for both. A, being short of cash asks B for an accommodation note of $1,000, payable in thirty days, and gives him his own note for the same amount, payable on the same date. A endorses B's note and discounts same at his bank. If B fails to pay the note at maturity, A must pay it, *i. e.*, he must repay out of his own pocket the $1,000 he received from the bank. If B has discounted A's note and cannot repay A, A must pay the $1,000. The limit in amount of each party is $1,000. A's books: Bills Receivable, Dr. $1,000 To Bill Payable $1,000, with full explanatory notes would record the transaction properly.

III. A retail bookstore agrees to deliver certain sets of books at $20, on payment of $2 down, the purchaser agreeing to make $3 payments for each of the six months next following. It is expected that sales on this plan will aggregate several hundred sets. Suggest a method of keeping the accounts, so that results may be readily shown.

Enter every contract for $20, as received in a sales book ruled with seven columns. In the first column charge $2 to each customer. Open a sales ledger, charge each customer from sales book and credit, at end of month the total of the column to a "general ledger account." Have a column for these receipts in the cash book and enter amounts received. Credit to each customer in sales ledger and charge total at end of month to "general ledger account." Sales ledger will then be self balancing.

The total number of contracts received multiplied by $20 should be credited monthly to merchandise account in the General Ledger and charged to a Subscription Account. This latter should monthly be credited with the total installments charged in sales ledger through sales book and charged to a "Subscription Ledger controlling account." Total cash received monthly should be credited to controlling account, which would then show monthly amount due for subscriptions in the sales ledger, while the Subscription Account would show the balance of amounts sold on contracts, but uncharged to customers, because not due.

IV. Give all the stages in closing the books of a mercantile corporation from the time they are fully posted to the completion of the financial statement.

(*a*) Credit inventory to merchandise account.

(*b*) From this account determine amount of gross profit. Charge the account and credit profit and loss with the amount of gross profit and bring down the inventory. The merchandise account being at rest, will now be a real account.

(*c*) Charge profit and loss account and credit nominal accounts with debit balances; charge nominal accounts with credit balances and credit profit and loss.

(*d*) Examine all real accounts and charge off an adequate percentage for depreciation from all subject to wear and tear.

(*e*) Examine the accounts receivable; close out those that are uncollectable and create a sufficient reserve for bad debts.

(*f*) Charge profit and loss and create reserves for discounts, etc.

(*g*) Credit surplus account and charge profit and loss with the net profit and show same on balance sheet.

V. Describe several methods of recording discounts on accounts as paid, avoiding misstatement of receipts and disbursements. State the advantages or disadvantages of the methods proposed.

(*a*) Credit cash received in one column of cash book and discount allowed in another. Post same into ledger *sep-*

arately. This will serve as a check on any cash being appropriated and discount made to cover the defalcation.

(*b*) Credit both cash and discount as before and post the total from a third column of cash book to which the totals of cash and discounts are carried. This lessens the amount of posting—but as both items appear under one title in ledger as "Sundries"—the check in method (*a*) is wanting.

(*c*) Treat discount as cash by crediting total amount of cash and discount as cash, and crediting each with discount on the opposite side. This also shortens the work—but does not record actual facts—as the amount credited to the customer was not received as posted.

(*d*) Another method is to pass all discounts through the journal. But this doubles the work and only accomplishes the result shown in method (*a*) which is recommended as the best.

VI. Outline an entry recording bond interest due but not paid at time of making the entry. What are the advantages of such an entry?

Accrued Interest, Dr.

To Interest act.

The advantage of the entry is this: That as the balance sheet is designed to show the state of affairs of a business at a given moment of time, all assets should appear, and all income applicable to the period covered by the balance sheet should be taken credit for.

VII. Mention other items which could be treated in a way similar to that suggested for interest in question 6 and state the advantages of such treatment.

Interest on loans accrued but unpaid, prepaid taxes, insurance, etc., should be treated similarly and for the same reason.

VIII. Give several methods of keeping the records of petty accounts and accounts with infrequent customers.

One method would necessitate keeping a petty ledger. The books of original entry should each have a special column allotted to this ledger, and a petty ledger controlling account could be opened in the general ledger which would show the aggregate amount due by customers in the Petty Ledger. This would greatly expedite the taking off of a trial balance. A second way would be to have the first few pages of the customers' ledger alphabetically indexed. Charge each customer under index letter on one line and credit cash as received on the same line on the opposite side. Creditors' accounts could be kept in the same way. The third method would be the voucher system, which might be adapted for both charges to infrequent customers and small purchase accounts.

IX. What should be the procedure in stating the value of stock on hand at the time of a fire, the financial books being intact and showing the amount of an inventory taken four months previous to the fire?

The procedure would be the same as is customarily adopted when it is desirable to arrive at the amount of the inventory without taking stock. In this case find out the average gross profit for several years on sales. Those for the four months in question will be on record, and the amount will contain purchase price plus the average percentage of gross profit. Divide total sales by one hundred plus the ascertained percentage, and the quotient will give cost price of goods actually sold. Deduct this from the inventory at commencement of the period plus the purchases for the four months, and the difference will be the value of stock on hand at the time of the fire.

X. Give cases where it is proper to include in a statement of assets and liabilities certain receipts and disbursements not occurring in the period under review.

If by "receipts and disbursements" is meant actual payments and receipts of cash, it is difficult to see how they could appear in a statement of assets and liabilities. They must have occurred prior to, or subsequent to the making up of the statement; and they would certainly have no place *as such* in a balance sheet. But if what is meant is "income and expenditure," then, as to expenditure—prepaid charges not applicable to the period under review might appear as assets: *e. g.*, taxes and insurance. As to income: items due, but not received could also appear as assets—*e. g.*, interest on investments. On the other hand, as liabilities might appear, items due but unpaid.

XI. On what are the accounts of an executor based? In preparing his account, with what does the executor charge himself and for what does he claim credit?

The accounts of an executor are based upon the inventory filed by him containing the appraised value of the property he administers.

He charges himself with Principal as per inventory; with any accretions thereto; and with the income of the estate up to the date of his accounting. He credits himself, as to principal, with any expenditure directly chargeable against it such as funeral expenses, inheritance tax, and expenses attending the care of the estate. As to income, he credits himself with all other expenditures.

XII. How should entries be made of notes receivable in the account of a customer whose credit is limited to a fixed maximum, so that his account will show at all times the amount for which his order may be accepted?

All notes as received should be credited to him—being posted in the ledger account in red ink. When paid, a black mark X should be placed against the entry. The amounts in red ink added to the debit balance of the account will at all times show his indebtedness. A special note credit account might be opened instead, but it is believed that the first method is simpler and achieves the same result.

XIII. How should entries be made of the discount at the bank of notes received under circumstances outlined in question 12? What entry should be made as the notes are paid at maturity?

Notes as received should be debited to Bills Receivable Account, with name of the customer and due date. When the note is discounted at the bank the cash should be credited to Bills Receivable Account on the same line and the cash marked in red ink "d." When the note is paid at maturity a black ink mark should be made through it. By this method the total amount of contingent liability on notes discounted by a firm can be ascertained in a few minutes. It also obviates the necessity of opening contingent liability ledger account.

XIV. State cases where the condition known as "diminishing assets" is likely to arise. How should such cases be treated?

All assets which are subject to wear and tear diminish in value, *e. g.*, plant and machinery, furniture, fixtures, etc., and this is provided for by writing off as depreciation, and charging to profit and loss account such an amount periodically as will after a given time leave the residual or break up value. Such cases should be treated by writing off the customary percentage for depreciation periodically until the residual value is arrived at. This can be done in two ways: (1) by writing off a fixed percentage of the *original cost* periodically until the residual value is reached. In this instance a lighter rate is sufficient than when depreciation is calculated on a diminishing value; (2) by writing off a fixed percentage off the diminishing value. Here, the percentage will be lighter from year to year, but the offset is that the expense of repairs will be greater.

XV. You are called on to assume the duties of general clerk and bookkeeper in an establishment where the accounting has been very meagre and primitive; state the steps that you would take to reform existing conditions.

The cash on hand should be counted and the pass book sent to the bank to be balanced. An inventory should be taken of stock and complete schedules of all assets and liabilities should be prepared from the books, bills, letters, etc. A balance sheet should next be prepared and a new set of books opened to record all transactions by double entry. The work should be laid out for the clerks in systematic order, and such original books of entry provided as would insure the accurate entry of all transactions—so as to afford the fullest detailed information with a minimum expenditure of labor.

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